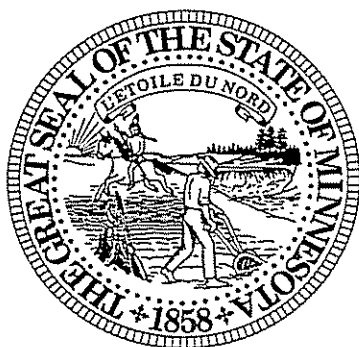




State of Minnesota

Minnesota
Financial and
Compliance Report
on Federally
Assisted Programs

For the Year Ended June 30, 2005



Financial and Compliance Report on Federally Assisted Programs

For the Year Ended June 30, 2005

State of Minnesota

**2005
Minnesota Financial
and Compliance
Report on Federally
Assisted Programs**

The Minnesota Financial and Compliance Report on Federally Assisted Programs can be made available in alternative formats upon request, to ensure that it is accessible to people with disabilities. To obtain this document in an alternate format, contact:

Minnesota Department of Finance
400 Centennial Office Building
658 Cedar Street
Saint Paul, Minnesota 55155-1489
651-297-1326

The Minnesota Relay service phone number is 1-800-627-3529.

The State of Minnesota Financial and Compliance Report on Federally Assisted Programs is available at the following website:

<http://www.finance.state.mn.us/>

State of Minnesota
Financial and Compliance Report on Federally Assisted Programs
Fiscal Year Ended June 30, 2005

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State of Minnesota
Department of Finance

400 Centennial Building
658 Cedar Street
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March 20, 2006

The Honorable Tim Pawlenty, Governor

Members of the Legislature

I am submitting the State of Minnesota Financial and Compliance Report on Federally Assisted Programs for the year ended June 30, 2005. This report meets the requirements of the Federal Single Audit Act of 1984 as amended in 1996 and the U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

This single audit report includes all federal assistance received by the state agencies determined to be a part of the primary government and its blended component units. The criteria used to define the state's reporting entity are those established by the Governmental Accounting Standards Board. All federal program activity of this reporting entity was included under the state's single audit. Programs administered by discretely presented component units are reported in separate single audit reports issued by the individual entities.

For purposes of the single audit in Minnesota, the audited entity is the state rather than each state agency. With this approach, the single audit can be combined with the annual financial audit. This is an efficient approach for Minnesota because state agencies are all subject to the same centralized controls (the accounting, personnel/payroll and procurement systems).

Management Responsibilities

The Department of Finance is responsible for the accuracy, fairness and completeness of the financial schedules, including all disclosures, presented in this report. The department is also responsible for the Minnesota Accounting and Procurement System (MAPS), which was used in preparing this report. I believe these schedules provide a fair representation of financial activity for federal programs for the year ended June 30, 2005.

The Department of Finance is responsible for designing and applying the statewide internal controls. State agencies are responsible for additional internal controls used for the administration of federal programs. These controls provide reasonable assurance that the state's assets are protected against loss, either intentional or unintentional; that resource use is consistent with laws, regulations and policies; that transactions are executed in accordance with management's authorization; and that the accounting records from which the financial schedules were prepared are reliable. The concept of reasonable assurance recognizes that the cost of control should not exceed the benefit derived.

In addition, state agencies have specific responsibilities for federal programs. State agencies are required to manage and maintain adequate accounting records for their federal programs. They are required by the relevant federal departments and agencies to prepare periodic financial reports. State agencies are also responsible for assuring that organizations to which they subgrant federal funds have the required audits and promptly resolve federal program deficiencies reported as a result of those audits. The U.S. Department of Health and Human Services - Office of Inspector General - National External Audit Resources serves as the lead cognizant agency representing all federal agencies awarding federal assistance to the state of Minnesota.

Federal Financial Assistance to the State of Minnesota

In fiscal year 2005, the state of Minnesota received approximately \$7.2 billion in federal assistance for its many programs.

Audits

The Minnesota Office of the Legislative Auditor performs an annual statewide audit primarily for the purpose of expressing an audit opinion on the financial statements included in the state's Comprehensive Annual Financial Report prepared by the Department of Finance. Another purpose of the statewide audit is to provide information to the Governor, Legislature and heads of state agencies concerning financial and accounting issues involving the state and its agencies. The scope of the annual statewide audit also includes the federal requirements of the Single Audit Act and OMB Circular A-133.

The Office of the Legislative Auditor has audited the federal programs financial schedules and their report on them is included as a part of this report. Also included are Office of the Legislative Auditor reports on internal control and compliance.

All subrecipients receiving federal assistance from Minnesota state agencies have been required to have audits in accordance with OMB Circular A-133. State agencies are responsible for assuring that their subrecipients have audits and resolve audit recommendations resulting from these audits. Results of these audits are summarized in the Report on Audits of Subrecipients issued by the Office of the State Auditor.

Report

This Single Audit Report supplements the state's Comprehensive Annual Financial Report for the year ended June 30, 2005, and includes financial information for federal programs compiled by the Department of Finance.

The Office of the Legislative Auditor is responsible for preparing the auditor's reports on internal control and compliance; summary of auditor's results; and the schedules of audit findings for statewide financial statements and federal programs. The Department of Finance is responsible for preparing the schedules of expenditures for federal programs, and the status of prior federal program audit findings schedule.

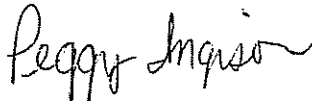
The financial schedules presented are meant to provide a consistent basis for reporting on the expenditures of federal assistance received by state agencies. They are not meant to replace recipient financial reporting currently required for each individual program of federal assistance.

In addition to this financial and compliance report, the single audit for the state of Minnesota includes the departmental audit reports issued by the Office of the Legislative Auditor and the Report on Audits of Subrecipients issued by the Office of the State Auditor.

Acknowledgments

Although the Department of Finance accepts final responsibility for this report, we would like to acknowledge the significant assistance provided by staff in the many state agencies receiving federal assistance. The financial schedules agencies prepared for each of their federal programs were used to compile these financial schedules.

Sincerely,

A handwritten signature in cursive script that reads "Peggy Ingison".

Peggy Ingison
Commissioner

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OFFICE OF THE LEGISLATIVE AUDITOR
STATE OF MINNESOTA • James Nobles, Legislative Auditor

**Report on Internal Control Over Financial Reporting and on
Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards***

Members of the Minnesota State Legislature

The Honorable Tim Pawlenty, Governor

Ms. Peggy Ingison, Commissioner of Finance

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Minnesota as of and for the year ended June 30, 2005, which collectively comprise the state's basic financial statements and have issued our report thereon dated November 18, 2005. We did not audit the financial statements of the Minnesota State Colleges and Universities (MnSCU), which is both a major fund and 78 percent, 79 percent, and 35 percent, respectively, of the total assets, net assets, and operating revenues of the primary government's business-type activities. We also did not audit the financial statements of the University of Minnesota, Metropolitan Council, Housing Finance Agency, Public Facilities Authority, Minnesota Workers' Compensation Assigned Risk Plan, Higher Education Services Office, and Minnesota Partnership for Action Against Tobacco, which cumulatively represent 99 percent, 99 percent, and 99 percent, respectively, of the total assets, net assets, and revenues of the total discretely presented component units. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the aforementioned business-type activities, major proprietary fund, and discretely presented component units, is based solely on the reports of other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Separate reports issued by other auditors on internal control over financial reporting and compliance and other matters based on an audit of financial statements performed in accordance with *Government Auditing Standards* are available for the University of Minnesota, Metropolitan Council, Housing Finance Agency, Public Facilities Authority, and Higher Education Services Office, which are discretely presented component units. The financial statements of the Minnesota Workers' Compensation Assigned Risk Plan and Minnesota Partnership for Action Against Tobacco were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the State of Minnesota's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the

Members of the Minnesota State Legislature
The Honorable Tim Pawlenty, Governor
Ms. Peggy Ingison, Commissioner of Finance
Page 2

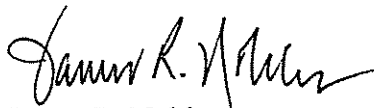
internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the State of Minnesota's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are included in Section II of the accompanying Schedule of Findings and Questioned Costs.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that none of the reportable conditions described above is a material weakness.

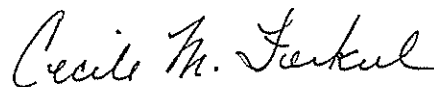
Compliance and Other Matters

As part of obtaining reasonable assurance about whether the State of Minnesota's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the management of the State of Minnesota, the governor of the State of Minnesota, and the Minnesota State Legislature and is not intended to be and should not be used by anyone other than these specified parties.



James R. Nobles
Legislative Auditor



Cecile M. Ferkul, CPA, CISA
Deputy Legislative Auditor

November 18, 2005



OFFICE OF THE LEGISLATIVE AUDITOR
STATE OF MINNESOTA • James Nobles, Legislative Auditor

**Report on Compliance with Requirements
Applicable to Each Major Program and on Internal Control
Over Compliance in Accordance with OMB Circular A-133**

Members of the Legislature

The Honorable Tim Pawlenty, Governor

Ms. Peggy Ingison, Commissioner of Finance

Compliance

We have audited the compliance of the State of Minnesota with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement*, that are applicable to each of its major federal programs for the year ended June 30, 2005. The State of Minnesota's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the State of Minnesota's management. Our responsibility is to express an opinion on the State of Minnesota's compliance based on our audit.

The State of Minnesota's basic financial statements include the operations of its discretely presented component units, which received approximately \$1.4 billion in federal awards, which is not included in the State of Minnesota's schedule of expenditures of federal awards for the year ended June 30, 2005. Our audit, described below, did not include the operations of the State of Minnesota's discretely presented component units because the component units engaged other auditors to perform an audit in accordance with OMB Circular A-133.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the State of Minnesota's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the State of Minnesota's compliance with those requirements.

As described in findings H-1 and H-2, R-1 and R-2, and S-1 of report 06-10, which are presented in Section III of the accompanying Schedule of Findings and Questioned Costs, the

State of Minnesota did not comply with requirements regarding eligibility and special tests and provisions that are applicable to its Medical Assistance and Temporary Assistance to Needy Families programs and did not comply with eligibility requirements applicable to its State Children's Health Insurance Program. Compliance with such requirements is necessary, in our opinion, for the State of Minnesota to comply with requirements applicable to those programs.

In our opinion, except for the noncompliance described in the preceding paragraph, the State of Minnesota complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2005. The results of our auditing procedures also disclosed other instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in Section III of the accompanying Schedule of Findings and Questioned Costs.

Internal Control Over Compliance

The management of the State of Minnesota is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the State of Minnesota's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the State of Minnesota's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts, and grants. Reportable conditions are identified and described in Section III of the accompanying Schedule of Findings and Questioned Costs.

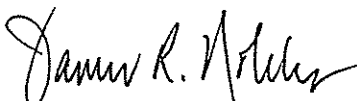
A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce, to a relatively low level, the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider findings H-1 and H-2, R-1 and R-2, and S-1 of report 06-10 to be material weaknesses.


Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Minnesota, as of and for the year ended June 30, 2005, and have issued our report thereon dated November 18, 2005. We did not audit the financial statements of the Minnesota State Colleges and Universities (MnSCU), which is both a major fund and 78 percent, 79 percent, and 35 percent, respectively, of the total assets, net assets, and operating revenues of the primary government's business-type activities. We also did not audit the financial statements of the University of Minnesota, Metropolitan Council, Housing Finance Agency, Public Facilities Authority, Minnesota Workers Compensation Assigned Risk Plan, Higher Education Services Office, and Minnesota Partnership for Action Against Tobacco, which cumulatively represent 99 percent, 99 percent, and 99 percent, respectively, of the total assets, net assets, and revenues of the total discretely presented component units. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the aforementioned business-type activities, major proprietary fund, and discretely presented component units, is based solely on the reports of other auditors.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the State of Minnesota's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for the purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the management of the State of Minnesota, the governor of the State of Minnesota, the Minnesota Legislature, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.


James R. Nobles
Legislative Auditor


Cecile M. Ferkul, CPA, CISA
Deputy Legislative Auditor

March 16, 2006, except for Schedule of Expenditures of Federal Awards as to which the date is November 18, 2005

STATE OF MINNESOTA
MAJOR FEDERAL PROGRAMS
SCHEDULE OF EXPENDITURES
YEAR ENDED JUNE 30, 2005

CDFA NUMBER	FEDERAL PROGRAM NAME	STATE AGENCY	FEDERAL EXPENDITURES
U.S. DEPARTMENT OF AGRICULTURE			
Child Nutrition Cluster			
10.553	SCHOOL BREAKFAST PROGRAM	EDUCATION	\$ 19,434,050
10.555	NATIONAL SCHOOL LUNCH PROGRAM	HUMAN SERVICES	5,087
10.555	NATIONAL SCHOOL LUNCH PROGRAM	EDUCATION	88,321,770
10.556	SPECIAL MILK PROGRAM FOR CHILDREN	EDUCATION	884,601
10.559	SUMMER FOOD SERVICE PROGRAM FOR CHILDREN	EDUCATION	2,837,589
Child Nutrition Cluster Total			\$ 111,483,097
Food Stamp Cluster			
10.551	FOOD STAMPS	HUMAN SERVICES	268,467,762
10.561	STATE ADMIN MATCHING GRANT FOR -FOOD STAMPS PROGRAM	HUMAN SERVICES	39,929,789
Food Stamp Cluster Total			\$ 308,397,551
10.557	SPECIAL SUPPL. PROG. NUTRITION/WOMEN/INFANTS & CHILDREN (5)	HEALTH	71,167,577
10.558	CHILD & ADULT CARE FOOD PROGRAM	EDUCATION	56,046,400
10.558	CHILD & ADULT CARE FOOD PROGRAM	STATE COLLEGES & UNIVERSITIES	28,727
CFDA 10.558 Program Total			\$ 56,075,127
U.S. DEPARTMENT OF DEFENSE			
12.401	NATIONAL GUARD MILITARY OPERATIONS & MAINTENANCE PROJECTS	NATURAL RESOURCES	13,912
12.401	NATIONAL GUARD MILITARY OPERATIONS & MAINTENANCE PROJECTS	MILITARY AFFAIRS	27,189,259
CFDA 12.401 Program Total			\$ 27,203,171
U.S. DEPARTMENT OF HOUSING & URBAN DEVELOPMENT			
14.228	COMMUNITY DEVELOPMENT BLOCK GRANTS/STATE'S PROGRAM	EMPLOYMENT & ECONOMIC DEV.	25,558,161
U.S. DEPARTMENT OF LABOR			
Employment Services Cluster			
17.207	EMPLOYMENT SERVICE	EMPLOYMENT & ECONOMIC DEV.	18,916,645
17.207	EMPLOYMENT SERVICE	STATE COLLEGES & UNIVERSITIES	154,465
17.801	DISABLED VETERANS OUTREACH PROGRAM	EMPLOYMENT & ECONOMIC DEV.	1,591,370
17.804	LOCAL VETERANS' EMPLOYMENT REPRESENTATIVE PROGRAM	EMPLOYMENT & ECONOMIC DEV.	1,315,516
Employment Services Cluster Total			\$ 21,977,996
Workforce Investment Act Cluster			
17.258	WIA ADULT PROGRAM	EMPLOYMENT & ECONOMIC DEV.	7,990,652
17.258	WIA ADULT PROGRAM	STATE COLLEGES & UNIVERSITIES	110,492
17.259	WIA YOUTH ACTIVITIES	EMPLOYMENT & ECONOMIC DEV.	9,013,835
17.260	WIA DISLOCATED WORKERS	EMPLOYMENT & ECONOMIC DEV.	12,356,415
17.260	WIA DISLOCATED WORKERS	STATE COLLEGES & UNIVERSITIES	132,193
Workforce Investment Act Cluster Total			\$ 29,603,587
17.225	UNEMPLOYMENT INSURANCE (6)	EMPLOYMENT & ECONOMIC DEV.	717,304,843
U.S. DEPARTMENT OF TRANSPORTATION			
Highway Planning and Construction Cluster			
20.205	HIGHWAY PLANNING & CONSTRUCTION	TRANSPORTATION	433,965,515

The notes (referenced in parentheses) are an integral part of these statements.

STATE OF MINNESOTA
MAJOR FEDERAL PROGRAMS
SCHEDULE OF EXPENDITURES
YEAR ENDED JUNE 30, 2005

CDFA NUMBER	FEDERAL PROGRAM NAME	STATE AGENCY	FEDERAL EXPENDITURES
U.S. DEPARTMENT OF TRANSPORTATION (Continued)			
Highway Planning and Construction Cluster			
20.205	HIGHWAY PLANNING & CONSTRUCTION	EMPLOYMENT & ECONOMIC DEV.	\$ 13,146
20.205	HIGHWAY PLANNING & CONSTRUCTION	PUBLIC SAFETY	118,955
		Highway Planning and Construction Cluster Total	\$ 434,097,616
20.106	AIRPORT IMPROVEMENT PROGRAM	TRANSPORTATION	61,485,556
U.S. DEPARTMENT OF THE TREASURY			
21.XXX	JOBS & GROWTH TAX RELIEF RECONCILIATION ACT OF 2003 (9)	FINANCE	167,287,927
U.S. GENERAL SERVICES ADMINISTRATION			
39.011	ELECTION REFORM PAYMENTS	SECRETARY OF STATE	1,645,191
U.S. DEPARTMENT OF EDUCATION			
Special Education Cluster			
84.027	SPECIAL EDUCATION-GRANTS TO STATES	EDUCATION	157,341,316
84.027	SPECIAL EDUCATION-GRANTS TO STATES	STATE COLLEGES & UNIVERSITIES	101,104
84.173	SPECIAL EDUCATION-PRESCHOOL GRANTS	EDUCATION	7,412,504
84.173	SPECIAL EDUCATION-PRESCHOOL GRANTS	STATE COLLEGES & UNIVERSITIES	67,760
		Special Education Cluster Total	\$ 164,922,684
Student Financial Assistance Cluster			
84.007	FEDERAL SUPPLEMENTAL EDUCATION OPPORTUNITY GRANTS	STATE COLLEGES & UNIVERSITIES	5,574,156
84.033	FEDERAL WORK-STUDY PROGRAM	STATE COLLEGES & UNIVERSITIES	7,019,976
84.063	FEDERAL PELL GRANT PROGRAM	STATE COLLEGES & UNIVERSITIES	109,238,576
		Student Financial Assistance Cluster Total	\$ 121,832,708
84.010	TITLE 1 GRANTS TO LOCAL EDUCATIONAL AGENCIES	EDUCATION	111,782,423
84.126	VOCATIONAL REHABILITATION GRANTS TO STATES	EMPLOYMENT & ECONOMIC DEV.	40,267,104
84.367	IMPROVING TEACHER QUALITY STATE GRANTS	STATE COLLEGES & UNIVERSITIES	326,332
84.367	IMPROVING TEACHER QUALITY STATE GRANTS	EDUCATION	46,336,173
		CFDA 84.367 Program Total	\$ 46,662,505
U.S. DEPARTMENT OF HEALTH & HUMAN SERVICES			
Aging Cluster			
93.044	GRANTS FOR SUPPORTIVE SERVICES AND SENIOR CENTERS	HUMAN SERVICES	7,564,416
93.045	SPECIAL PROGRAMS FOR THE AGING-NUTRITION SERVICES	HUMAN SERVICES	7,363,844
93.053	NUTRITION SERVICES INCENTIVE PROGRAM	HUMAN SERVICES	2,402,061
		Aging Cluster Total	\$ 17,330,321
Child Care Cluster			
93.575	CHILD CARE & DEVELOPMENT BLOCK GRANT	STATE COLLEGES & UNIVERSITIES	76,147
93.575	CHILD CARE & DEVELOPMENT BLOCK GRANT	HUMAN SERVICES	65,703,404
93.596	CHILD CARE MANDATORY & MATCH. FUNDS - CHILD CARE/DEV FUND	HUMAN SERVICES	47,283,481
		Child Care Cluster Total	\$ 113,063,032
Medicaid Cluster			
93.775	STATE MEDICAID FRAUD CONTROL UNITS	ATTORNEY GENERAL	880,656
93.777	ST. HEALTH CARE & CERTIF.-HEALTH CARE PROVIDERS/SUPPLIERS	HEALTH	6,335,259

The notes (referenced in parenthesis) are an integral part of these statements.

STATE OF MINNESOTA
MAJOR FEDERAL PROGRAMS
SCHEDULE OF EXPENDITURES
YEAR ENDED JUNE 30, 2005

CDFA NUMBER	FEDERAL PROGRAM NAME	STATE AGENCY	FEDERAL EXPENDITURES
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES (Continued)			
Medicaid Cluster			
93.777	ST. HEALTH CARE & CERTIF.-HEALTH CARE PROVIDERS/SUPPLIERS	HUMAN SERVICES	\$ 4,201,024
93.778	MEDICAL ASSISTANCE PROGRAM (5)	HUMAN SERVICES	2,949,782,406
		Medicaid Cluster Total	\$ 2,961,199,345
93.283	CENTER FOR DISEASE CONTROL & PREVENTION	HEALTH	26,358,925
93.558	TEMPORARY ASSISTANCE FOR NEEDY FAMILIES	HUMAN SERVICES	210,249,345
93.563	CHILD SUPPORT ENFORCEMENT	HUMAN SERVICES	98,348,187
93.568	LOW INCOME HOME ENERGY ASSISTANCE	COMMERCE	76,407,954
93.658	FOSTER CARE-TITLE IV-E	STATE COLLEGES & UNIVERSITIES	94,335
93.658	FOSTER CARE-TITLE IV-E	HUMAN SERVICES	70,600,737
		CFDA 93.658 Total	\$ 70,695,072
93.659	ADOPTION ASSISTANCE	HUMAN SERVICES	21,241,389
93.767	STATE CHILDREN'S INSURANCE PROGRAM	HUMAN SERVICES	76,482,167
93.959	BLOCK GRANTS FOR PREVENTION & TREATMENT OF SUBSTANCE ABUSE	HUMAN SERVICES	23,511,293
U.S. DEPARTMENT OF HOMELAND SECURITY			
97.004	STATE DOMESTIC PREPAREDNESS EQUIP. SUPPORT PROG.	AGRICULTURE	12,844
97.004	STATE DOMESTIC PREPAREDNESS EQUIP. SUPPORT PROG.	STATE COLLEGES & UNIVERSITIES	7,050
97.004	STATE DOMESTIC PREPAREDNESS EQUIP. SUPPORT PROG.	NATURAL RESOURCES	83,801
97.004	STATE DOMESTIC PREPAREDNESS EQUIP. SUPPORT PROG.	PUBLIC SAFETY	35,826,225
		CFDA 97.004 Total	\$ 35,929,920
		Major Program Total	\$ 6,249,571,774

The notes (referenced in parentheses) are an integral part of these statements.

STATE OF MINNESOTA
NONMAJOR FEDERAL PROGRAMS
SCHEDULE OF EXPENDITURES
YEAR ENDED JUNE 30, 2005

CDFA NUMBER	FEDERAL PROGRAM NAME	STATE AGENCY	FEDERAL EXPENDITURES
U.S. DEPARTMENT OF AGRICULTURE			
Emergency Food Assistance Cluster			
10.568	EMERGENCY FOOD ASSISTANCE-ADMIN COSTS	HUMAN SERVICES	\$ 825,973
		Emergency Food Assistance Cluster Total \$	825,973
Schools and Roads Cluster			
10.665	SCHOOLS AND ROADS-GRANTS TO STATES	FINANCE	2,106,237
		Schools and Roads Cluster Total \$	2,106,237
10.025	PLANT/ANIMAL DISEASE/CARE/PEST CONTROLS	ANIMAL HEALTH BOARD	1,628,001
10.025	PLANT/ANIMAL DISEASE/CARE/PEST CONTROLS	AGRICULTURE	151,252
10.069	CONSERVATION RESERVE PROGRAM	NATURAL RESOURCES	95,785
10.156	FEDERAL-STATE MARKETING IMPROVEMENT	AGRICULTURE	57,250
10.162	INSPECTION GRADING & STANDARDIZATION	AGRICULTURE	330,482
10.163	MARKET PROTECTION AND PROMOTION	AGRICULTURE	610,006
10.206	AGRICULTURAL COMPETITIVE RESEARCH	STATE COLLEGES & UNIVERSITIES	42,054
10.222	TRIBAL COLLEGES ENDOWMENT PROGRAM	NATURAL RESOURCES	20,933
10.222	TRIBAL COLLEGES ENDOWMENT PROGRAM	STATE COLLEGES & UNIVERSITIES	1,838
10.226	SECONDARY & TWO-YR POSTSECONDARY AG ED	STATE COLLEGES & UNIVERSITIES	7,500
10.303	INTEGRATED PROGRAMS	AGRICULTURE	3,829
10.450	CROP INSURANCE	AGRICULTURE	33,317
10.475	COOP AGREEMENTS-INTRASTATE MEAT & POULTRY INSPECTIONS	AGRICULTURE	536,086
10.500	COOPERATIVE EXTENSION SERVICE	AGRICULTURE	51,153
10.550	FOOD DISTRIBUTION	EDUCATION	18,534,369
10.560	STATE ADMIN EXPENSES FOR CHILD NUTRITION	EDUCATION	2,348,516
10.565	COMMODITY SUPPLEMENTAL FOOD PROGRAM	HEALTH	921,136
10.572	WIC FARMERS' MARKET NUTRITION	AGRICULTURE	501,731
10.576	SENIOR FARMERS MARKET NUTRITION PROGRAM	AGRICULTURE	155,616
10.652	FORESTRY RESEARCH	STATE COLLEGES & UNIVERSITIES	69,590
10.652	FORESTRY RESEARCH	NATURAL RESOURCES	119,671
10.664	COOPERATIVE FORESTRY ASSISTANCE	NATURAL RESOURCES	3,097,603
10.664	COOPERATIVE FORESTRY ASSISTANCE	AGRICULTURE	226,108
10.668	ADDITIONAL LANDS-GRANTS TO MINNESOTA	FINANCE	2,101,500
10.766	COMMUNITY FACILITIES LOANS AND GRANTS	STATE COLLEGES & UNIVERSITIES	22,036
10.901	RESOURCE CONSERVATION AND DEVELOPMENT	NATURAL RESOURCES	5,264
10.902	SOIL & WATER CONSERVATION	AGRICULTURE	30,120
10.912	ENVIRONMENTAL QUALITY INCENTIVES PROGRAM	AGRICULTURE	13,270
U.S. DEPARTMENT OF COMMERCE			
Public Works and Economic Development Cluster			
11.307	ECONOMIC ADJUSTMENT ASSISTANCE	STATE COLLEGES & UNIVERSITIES	53,757
		Public Works and Economic Development Cluster Total \$	53,757
11.303	ECONOMIC DEVELOPMENT-TECHNICAL ASSIST.	STATE COLLEGES & UNIVERSITIES	68,557
11.413	FISHERY PRODUCTS INSPECTION/CERTIFICATION	AGRICULTURE	14,354
11.419	COASTAL ZONE MANAGEMENT ADMIN AWARDS	NATURAL RESOURCES	1,821,717
11.431	CLIMATE AND ATMOSPHERIC RESEARCH	STATE COLLEGES & UNIVERSITIES	432
11.467	METEOROLOGIC & HYDROLOGIC MODERNIZATION DEVELOPMENT	STATE COLLEGES & UNIVERSITIES	4,014
U.S. DEPARTMENT OF DEFENSE			
12.104	FLOOD PLAIN MANAGEMENT SERVICES	FINANCE	15,863
12.113	REIMBURSEMENT OF TECHNICAL SERVICES	POLLUTION CONTROL AGENCY	291,183
12.300	BASIC & APPLIED SCIENTIFIC RESEARCH	STATE COLLEGES & UNIVERSITIES	14,723
12.404	NATIONAL GUARD CIVILIAN OPPORTUNITIES	MILITARY AFFAIRS	482,000

The notes (referenced in parentheses) are an integral part of these statements.

STATE OF MINNESOTA
NONMAJOR FEDERAL PROGRAMS
SCHEDULE OF EXPENDITURES
YEAR ENDED JUNE 30, 2005

CDFA NUMBER	FEDERAL PROGRAM NAME	STATE AGENCY	FEDERAL EXPENDITURES
U.S. DEPARTMENT OF HOUSING & URBAN DEVELOPMENT			
Community Development Block Grants/Entitlement Cluster			
14.218	COMMUNITY DEVELOPMENT BLOCK GRANTS/ENTITLEMENT GRANTS	STATE COLLEGES & UNIVERSITIES	\$ 24,819
	Community Development Block Grants/Entitlement Cluster Total		\$ 24,819
14.231	EMERGENCY SHELTER GRANTS PROGRAM	HUMAN SERVICES	1,156,235
14.235	SUPPORTIVE HOUSING PROGRAM	VETERANS HOME BOARD	226,097
14.235	SUPPORTIVE HOUSING PROGRAM	HUMAN SERVICES	628,894
14.512	COMMUNITY DEVELOPMENT WORK-STUDY PROGRAM	STATE COLLEGES & UNIVERSITIES	43,894
14.519	TRIBAL COLLEGES AND UNIVERSITIES PROGRAM	STATE COLLEGES & UNIVERSITIES	27,569
14.905	LEAD HAZARD REDUCTION DEMONSTRATION GRANT PROGRAM	EMPLOYMENT & ECONOMIC DEV.	632,257
U.S. DEPARTMENT OF INTERIOR			
Fish & Wildlife Cluster			
15.605	SPORT FISH RESTORATION	NATURAL RESOURCES	11,180,027
15.611	WILDLIFE RESTORATION	STATE COLLEGES & UNIVERSITIES	3,404
15.611	WILDLIFE RESTORATION	NATURAL RESOURCES	7,219,955
	Fish & Wildlife Cluster Total		\$ 18,403,386
15.608	FISH & WILDLIFE MGMT ASSISTANCE	STATE COLLEGES & UNIVERSITIES	7,612
15.608	FISH & WILDLIFE MGMT ASSISTANCE	NATURAL RESOURCES	13,381
15.615	COOP ENDANGERED SPECIES CONSERVATION FUND	NATURAL RESOURCES	26,071
15.616	CLEAN VESSEL ACT	NATURAL RESOURCES	10,000
15.633	LANDOWNER INCENTIVE	NATURAL RESOURCES	528,580
15.634	STATE WILDLIFE GRANTS	STATE COLLEGES & UNIVERSITIES	20,941
15.634	STATE WILDLIFE GRANTS	NATURAL RESOURCES	1,096,149
15.805	ASSIST. TO STATE WATER RESOURCES RESEARCH INSTITUTES	STATE COLLEGES & UNIVERSITIES	27,895
15.808	U.S. GEOLOGICAL SURVEY - RESEARCH & DATA COLLECTION	ADMINISTRATION	10,270
15.809	NATIONAL SPATIAL DATA INFRASTRUCTURE AGREEMENTS	ADMINISTRATION	12,252
15.809	NATIONAL SPATIAL DATA INFRASTRUCTURE AGREEMENTS	STATE COLLEGES & UNIVERSITIES	7,978
15.809	NATIONAL SPATIAL DATA INFRASTRUCTURE AGREEMENTS	NATURAL RESOURCES	22,536
15.810	NATIONAL COOPERATIVE GEOLOGIC MAPPING PROGRAM	NATURAL RESOURCES	77
15.916	OUTDOOR RECREATION-ACQ., DEVP. & PLANNING	NATURAL RESOURCES	1,093,431
15.923	NATIONAL CENTER FOR PRESERVATION TECH. & TRAINING	STATE COLLEGES & UNIVERSITIES	17,516
15.978	UPPER MISSISS. RIVER SYSTEM LONG TERM RESOURCE MONITORING	NATURAL RESOURCES	336,665
15.FEB	ENDANGERED SPECIES-PLANTS-NON-TITLE IV (B)	NATURAL RESOURCES	10,357
15.FFB	ENDANGERED SPECIES-PLANTS-(NON-TITLE 5) (B)	NATURAL RESOURCES	30,678
U.S. DEPARTMENT OF JUSTICE			
16.004	LAW ENFORCE. ASSIST. NARCOTICS & DANGEROUS DRUGS TRAINING	PUBLIC SAFETY	147,391
16.202	OFFENDER REENTRY PROGRAM	CORRECTIONS	949,494
16.203	SEX OFFENDER MANAGEMENT DISCRETIONARY GRANT	CORRECTIONS	45,796
16.321	ANTITERRORISM EMERGENCY RESERVE	PUBLIC SAFETY	85,275
16.523	JUVENILE ACCOUNTABILITY INCENTIVE BLOCK GRANT	SUPREME COURT	49,464
16.527	SUPERVISED VISITATION SAFE HAVENS FOR CHILDREN	PUBLIC SAFETY	196,336
16.528	GRANTS TO STOP ABUSE & SEXUAL ASSAULT OF THE OLDER/DISABLED	STATE COLLEGES & UNIVERSITIES	91,330
16.540	JUVENILE JUSTICE & DELINQUENCY PREVENTION	STATE COLLEGES & UNIVERSITIES	5,940
16.540	JUVENILE JUSTICE & DELINQUENCY PREVENTION	PUBLIC SAFETY	1,048,905
16.541	DEV. & DEMONSTRATING PROMISING NEW PROGRAMS	STATE COLLEGES & UNIVERSITIES	598,014
16.549	PART E-STATE CHALLENGE ACTIVITIES	PUBLIC SAFETY	178,991
16.550	STATE JUSTICE STATISTICS PROG. FOR STATISTICAL ANALYSIS CENTERS	PUBLIC SAFETY	30,923
16.560	NTL. INST. OF JUSTICE RES. EVAL & DEVEL. PROJ. GRANTS	PUBLIC SAFETY	96,268
16.564	CRIME LAB IMPROVE.-COMBINED OFFENDER DNA INDEX BACKLOG	PUBLIC SAFETY	416,345
16.575	CRIME VICTIM ASSISTANCE	PUBLIC SAFETY	6,136,910
16.576	CRIME VICTIM COMPENSATION	PUBLIC SAFETY	1,407,079
16.579	BYRNE FORMULA GRANT PROGRAM	PUBLIC SAFETY	7,447,039

The notes (referenced in parentheses) are an integral part of these statements.

STATE OF MINNESOTA
NONMAJOR FEDERAL PROGRAMS
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YEAR ENDED JUNE 30, 2005

CDFA NUMBER	FEDERAL PROGRAM NAME	STATE AGENCY	FEDERAL EXPENDITURES
U.S. DEPARTMENT OF JUSTICE (Continued)			
16.580	EDWARD BYRNE STATE/LOCAL LAW ENFORCE. ASSIST. DISC. GRANTS	TRIAL COURTS	\$ 317,294
16.580	EDWARD BYRNE STATE/LOCAL LAW ENFORCE. ASSIST. DISC. GRANTS	PUBLIC SAFETY	3,407,716
16.586	VIOLENT OFFENDER INCARC-TRUTH-IN SENTENCING INCENTIVE GRANTS	CORRECTIONS	845,501
16.588	VIOLENCE AGAINST WOMEN FORMULA GRANTS	PUBLIC SAFETY	2,065,492
16.592	LOCAL LAW ENFORCEMENT BLOCK GRANTS PROGRAM	PUBLIC SAFETY	1,117,584
16.593	RESIDENTIAL SUBSTANCE ABUSE TREATMENT FOR STATE PRISONERS	PUBLIC SAFETY	256,699
16.595	COMMUNITY CAPACITY DEVELOPMENT OFFICE	PUBLIC SAFETY	955,864
16.606	STATE CRIMINAL ALIEN ASSISTANCE PROGRAM	CORRECTIONS	1,294,390
16.607	BULLETPROOF VEST PARTNERSHIP PROGRAM	NATURAL RESOURCES	3,528
16.607	BULLETPROOF VEST PARTNERSHIP PROGRAM	CORRECTIONS	13,563
16.609	COMM. PROSECUTION & PROJECT SAFE NEIGHBORHOODS	PUBLIC SAFETY	490,874
16.710	PUBLIC SAFETY PARTNERSHIP & COMMUNITY POLICING GRANTS	PUBLIC SAFETY	295,081
16.712	POLICE CORPS	PUBLIC SAFETY	957,119
16.727	ENFORCE UNDERAGE DRINKING LAWS PROGRAM	PUBLIC SAFETY	393,747
16.733	NATIONAL INCIDENT BASED REPORTING SYSTEM	PUBLIC SAFETY	684,582
U.S. DEPARTMENT OF LABOR			
17.002	LABOR FORCE STATISTICS	EMPLOYMENT & ECONOMIC DEV.	2,022,279
17.005	COMPENSATION & WORKING CONDITIONS	LABOR AND INDUSTRY	109,692
17.235	SENIOR COMMUNITY SERVICE EMPLOYMENT PROGRAM	EMPLOYMENT & ECONOMIC DEV.	1,900,531
17.245	TRADE ADJUSTMENT ASSISTANCE-WORKERS	EMPLOYMENT & ECONOMIC DEV.	14,833,784
17.253	WELFARE TO WORK TO WORK GRANTS TO STATES & LOCALITIES	STATE COLLEGES & UNIVERSITIES	168,119
17.261	EMPLOYMENT & TRAINING ADMIN. PILOTS, DEMONST./RES. PROJ.	STATE COLLEGES & UNIVERSITIES	652,970
17.261	EMPLOYMENT & TRAINING ADMIN. PILOTS, DEMONST./RES. PROJ.	EMPLOYMENT & ECONOMIC DEV.	152,415
17.266	WORK INCENTIVES GRANT	EMPLOYMENT & ECONOMIC DEV.	2,342
17.267	WIA INCENTIVE GRANTS- SECTION 503 GRANTS TO STATES	EMPLOYMENT & ECONOMIC DEV.	5,000
17.502	OCCUPATIONAL SAFETY AND HEALTH SUSAN HARWOOD TRG. GNTS.	STATE COLLEGES & UNIVERSITIES	47,905
17.503	OCCUPATIONAL SAFETY & HEALTH-STATE PROGRAM	LABOR AND INDUSTRY	4,298,291
17.504	CONSULTATION AGREEMENTS	LABOR AND INDUSTRY	1,052,899
17.600	MINE HEALTH & SAFETY GRANTS	STATE COLLEGES & UNIVERSITIES	251,867
17.720	DISABILITY EMPLOYMENT POLICY DEVELOPMENT	EMPLOYMENT & ECONOMIC DEV.	595,337
U.S. DEPARTMENT OF TRANSPORTATION			
Federal Transit Cluster			
20.500	FEDERAL TRANSIT CAPITAL IMPROVEMENT GRANTS	TRANSPORTATION	98,864
20.507	FEDERAL TRANSIT FORMULA GRANTS	PUBLIC SAFETY	60,863
20.507	FEDERAL TRANSIT FORMULA GRANTS	TRANSPORTATION	6,431,590
Federal Transit Cluster Total \$			6,591,317
Highway Safety Cluster			
20.600	STATE & COMMUNITY HIGHWAY SAFETY	PUBLIC SAFETY	13,872,307
20.600	STATE & COMMUNITY HIGHWAY SAFETY	STATE COLLEGES & UNIVERSITIES	7,200
20.601	ALCOHOL TRAFFIC SAFETY/DRUNK DRIVING PREV. INCENTIVE GRANTS	PUBLIC SAFETY	806,104
20.603	FEDERAL HIGHWAY SAFETY DATA IMPROVEMENT	PUBLIC SAFETY	214,205
Highway Safety Cluster Total \$			14,899,816
20.100	AVIATION EDUCATION	STATE COLLEGES & UNIVERSITIES	724,863
20.100	AVIATION EDUCATION	TRANSPORTATION	464,395
20.215	HIGHWAY TRAINING & EDUCATION	STATE COLLEGES & UNIVERSITIES	1,063
20.217	MOTOR CARRIER SAFETY	PUBLIC SAFETY	391,020
20.218	NATIONAL MOTOR CARRIER SAFETY	PUBLIC SAFETY	5,425,972
20.219	RECREATIONAL TRAILS PROGRAM	NATURAL RESOURCES	995,232
20.505	FEDERAL TRANSIT-METROPOLITAN TRAINING GRANTS	TRANSPORTATION	4,051,885

The notes (referenced in parentheses) are an integral part of these statements.

STATE OF MINNESOTA
NONMAJOR FEDERAL PROGRAMS
SCHEDULE OF EXPENDITURES
YEAR ENDED JUNE 30, 2005

CDFA NUMBER	FEDERAL PROGRAM NAME	STATE AGENCY	FEDERAL EXPENDITURES
U.S. DEPARTMENT OF TRANSPORTATION (Continued)			
20.509	FORMULA GRANTS FOR OTHER THAN URBANIZED AREAS	TRANSPORTATION	\$ 7,091,589
20.513	CAPITAL ASSIST. PROG.- ELDERLY PERSONS/PERSONS W/DISAB.	TRANSPORTATION	1,429,526
20.700	PIPELINE SAFETY	PUBLIC SAFETY	964,611
20.703	INTERAGENCY HAZARD. MATERIALS-PUBLIC SECTOR TRAINING GRANTS	STATE COLLEGES & UNIVERSITIES	40,117
20.703	INTERAGENCY HAZARD. MATERIALS-PUBLIC SECTOR TRAINING GRANTS	PUBLIC SAFETY	234,630
U.S. EQUAL EMPLOYMENT OPPORTUNITY COMMISSION			
30.002	FAIR EMPLOYMENT PRACTICES CONTRACTS	HUMAN RIGHTS	411,500
U.S. NATIONAL AERONAUTICS & SPACE ADMINISTRATION			
43.001	AEROSPACE EDUCATION SERVICES PROGRAM	STATE COLLEGES & UNIVERSITIES	98,404
U.S. NATIONAL FOUNDATION ARTS & HUMANITIES			
45.025	PROMOTION OF THE ARTS-PARTNERSHIP AGREEMENTS	STATE ARTS BOARD	655,798
45.129	PROMOTION OF HUMANITIES-FEDERAL/STATE PRTRNSHP	STATE COLLEGES & UNIVERSITIES	4,257
45.164	PROMOTION OF THE HUMANITIES-PUBLIC PROGRAMS	STATE COLLEGES & UNIVERSITIES	588
45.310	STATE LIBRARY PROGRAM	STATE COLLEGES & UNIVERSITIES	174,229
45.310	STATE LIBRARY PROGRAM	EDUCATION	2,826,629
U.S. NATIONAL SCIENCE FOUNDATION			
47.041	ENGINEERING GRANTS	STATE COLLEGES & UNIVERSITIES	91,281
47.049	MATHEMATICAL & PHYSICAL SCIENCES	STATE COLLEGES & UNIVERSITIES	122,920
47.050	GEOSCIENCES	STATE COLLEGES & UNIVERSITIES	36,181
47.070	COMPUTER AND INFORMATION SCIENCE AND ENGINEERING	STATE COLLEGES & UNIVERSITIES	20,893
47.074	BIOLOGICAL SCIENCES	STATE COLLEGES & UNIVERSITIES	103,724
47.075	SOCIAL, BEHAVIORAL & ECONOMIC SCIENCES	STATE COLLEGES & UNIVERSITIES	41,489
47.076	EDUCATION & HUMAN RESOURCES	STATE COLLEGES & UNIVERSITIES	994,879
47.078	POLAR PROGRAMS	STATE COLLEGES & UNIVERSITIES	3,884
U.S. SMALL BUSINESS ADMINISTRATION			
59.037	SMALL BUSINESS DEVELOPMENT CENTER	STATE COLLEGES & UNIVERSITIES	974,171
59.037	SMALL BUSINESS DEVELOPMENT CENTER	EMPLOYMENT & ECONOMIC DEV.	1,511,316
U.S. DEPARTMENT OF VETERANS AFFAIRS			
64.014	VETERANS STATE DOMICILIARY CARE	VETERANS HOME BOARD	2,121,074
64.015	VETERANS STATE NURSING HOME CARE	VETERANS HOME BOARD	11,005,808
64.124	ALL-VOLUNTEER FORCE EDUCATION ASSISTANCE	LABOR AND INDUSTRY	37,749
64.203	STATE CEMETERY GRANTS	VETERANS AFFAIRS	69,456
U.S. ENVIRONMENTAL PROTECTION AGENCY			
66.032	STATE INDOOR RADON GRANTS	HEALTH	523,370
66.034	SURVEY STUDIES, INVESTIGATIONS DEMONSTRATION-CLEAN AIR ACT	POLLUTION CONTROL AGENCY	36,751
66.419	WATER POLLUTION CONTROL-STATE/INTERSTATE PROGRAM SUPPORT	POLLUTION CONTROL AGENCY	50,961
66.419	WATER POLLUTION CONTROL-STATE/INTERSTATE PROGRAM SUPPORT	HEALTH	23,015
66.432	STATE PUBLIC WATER SYSTEM SUPERVISION	HEALTH	2,466,590
66.433	STATE UNDERGROUND WATER SOURCE PROTECTION	AGRICULTURE	17,938
66.454	WATER QUALITY MANAGEMENT PLANNING	POLLUTION CONTROL AGENCY	385,289
66.460	NONPOINT SOURCE IMPLEMENTATION GRANTS	POLLUTION CONTROL AGENCY	6,025,180
66.460	NONPOINT SOURCE IMPLEMENTATION GRANTS	STATE COLLEGES & UNIVERSITIES	48,218
66.460	NONPOINT SOURCE IMPLEMENTATION GRANTS	AGRICULTURE	156,652
66.461	REGIONAL WETLAND PROGRAM DEVELOPMENT GRANTS	POLLUTION CONTROL AGENCY	315,178
66.461	REGIONAL WETLAND PROGRAM DEVELOPMENT GRANTS	NATURAL RESOURCES	25,279
66.463	WATER QUALITY COOP. AGREEMENTS	POLLUTION CONTROL AGENCY	191,163

The notes (referenced in parentheses) are an integral part of these statements.

STATE OF MINNESOTA
NONMAJOR FEDERAL PROGRAMS
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YEAR ENDED JUNE 30, 2005

CDFA NUMBER	FEDERAL PROGRAM NAME	STATE AGENCY	FEDERAL EXPENDITURES
U.S. ENVIRONMENTAL PROTECTION AGENCY (Continued)			
66.467	WASTEWATER OPERATOR TRAINING	POLLUTION CONTROL AGENCY	\$ 44,485
66.468	CAPITAL GRANTS-DRINKING WATER STATE REVOLVING FUNDS	HEALTH	1,377,046
66.469	GREAT LAKES PROGRAM	POLLUTION CONTROL AGENCY	248,497
66.469	GREAT LAKES PROGRAM	HEALTH	638
66.469	GREAT LAKES PROGRAM	NATURAL RESOURCES	40,000
66.471	STATE GRANTS TO OPERATORS - SMALL WATER SYSTEMS	HEALTH	200,698
66.471	STATE GRANTS TO OPERATORS - SMALL WATER SYSTEMS	STATE COLLEGES & UNIVERSITIES	76,705
66.472	BEACH MONITORING AND NOTIFICATION PROGRAM	POLLUTION CONTROL AGENCY	279,422
66.474	WATER PROTECTION GRANTS TO THE STATES	HEALTH	93,058
66.480	ASSESSMENT AND WATERSHED PROTECTION PROGRAM	POLLUTION CONTROL AGENCY	9,000
66.500	ENVIRONMENTAL PROTECTION-CONSOLIDATED RESEARCH	POLLUTION CONTROL AGENCY	27,384
66.605	PERFORMANCE PARTNERSHIP GRANT	POLLUTION CONTROL AGENCY	6,036,715
66.606	SURVEYS, STUDIES, & INVESTIGATIONS & SPECIAL PURPOSE GRANTS	HEALTH	40,776
66.606	SURVEYS, STUDIES, & INVESTIGATIONS & SPECIAL PURPOSE GRANTS	POLLUTION CONTROL AGENCY	664,165
66.608	ENVIRONMENTAL/INFORMATION EXCHANGE NETWORK	POLLUTION CONTROL AGENCY	171,945
66.609	PROTECTION OF CHILDREN & OLDER ADULTS FROM ENV. HEALTH RISKS	HEALTH	24,814
66.700	CONSOLIDATED PESTICIDE ENFORCEMENT COOP AGREEMENTS	NATURAL RESOURCES	18,054
66.700	CONSOLIDATED PESTICIDE ENFORCEMENT COOP AGREEMENTS	AGRICULTURE	823,303
66.707	CERTIFICATION OF LEAD-BASED PAINT PROFESSIONALS	HEALTH	331,030
66.708	POLLUTION PREVENTION GRANTS PROGRAM	POLLUTION CONTROL AGENCY	52,510
66.802	SUPERFUND STATE, POLITICAL SUBDIVISION SITE-COOP AGREEMENTS	POLLUTION CONTROL AGENCY	1,051,660
66.805	LEAKING UNDERGROUND STORAGE TANK TRUST FUND PROGRAM	POLLUTION CONTROL AGENCY	1,473,737
66.808	SOLID WASTE MANAGEMENT ASSISTANCE GRANTS	ENVIRONMENTAL ASSISTANCE	77,355
66.814	BROWNSFIELD TRG. RESEARCH & TECH. ASSIST. GRANTS	AGRICULTURE	109,431
66.817	STATE & TRIBAL RESPONSE PROGRAM GRANTS	POLLUTION CONTROL AGENCY	875,509
66.818	BROWNFIELD ASSESSMENT & CLEANUP AGREEMENTS	EMPLOYMENT & ECONOMIC DEV.	24,194
U.S. DEPARTMENT OF ENERGY			
81.041	STATE ENERGY CONSERVATION PROGRAM	COMMERCE	1,323,266
81.042	WEATHERIZATION ASSISTANCE-LOW INCOME PERSONS	COMMERCE	9,752,106
81.117	ENERGY EFFICIENCY & RENEWABLE ENERGY INFO DISSEMINATION	COMMERCE	49,024
81.119	STATE ENERGY PROGRAM SPECIAL PROJECTS	COMMERCE	460,352
U.S. DEPARTMENT OF EDUCATION			
TRIO Cluster			
84.042	TRIO-STUDENT SUPPORT SERVICES	STATE COLLEGES & UNIVERSITIES	5,930,694
84.044	TRIO-TALENT SEARCH	STATE COLLEGES & UNIVERSITIES	1,204,320
84.047	TRIO-UPWARD BOUND	STATE COLLEGES & UNIVERSITIES	4,188,598
84.066	TRIO-EDUCATIONAL OPPORTUNITY CENTERS	STATE COLLEGES & UNIVERSITIES	743,558
84.217	TRIO-MCNAIR POST-BACCALAUREATE ACHIEVEMENT	STATE COLLEGES & UNIVERSITIES	200,749
TRIO Cluster Total \$			12,267,919
84.002	ADULT EDUCATION-STATE GRANT	STATE COLLEGES & UNIVERSITIES	1,088
84.002	ADULT EDUCATION-STATE GRANT	EDUCATION	7,559,603
84.011	MIGRANT EDUCATION-STATE GRANT PROGRAMS	EDUCATION	1,741,854
84.013	TITLE I-NEGLECTED & DELINQUENT CHILDREN	EDUCATION	283,622
84.031	HIGHER EDUCATION-INSTITUTIONAL AID	STATE COLLEGES & UNIVERSITIES	181,805
84.048	VOCATIONAL EDUCATION-BASIC STATE GRANTS	STATE COLLEGES & UNIVERSITIES	18,291,813
84.116	IMPROVEMENT OF POSTSECONDARY EDUCATION	STATE COLLEGES & UNIVERSITIES	948,505
84.129	REHABILITATION LONG-TERM TRAINING	STATE COLLEGES & UNIVERSITIES	154,434
84.132	CENTERS FOR INDEPENDENT LIVING	EMPLOYMENT & ECONOMIC DEV.	944,050
84.169	INDEPENDENT LIVING-STATE GRANTS	EMPLOYMENT & ECONOMIC DEV.	559,308
84.177	INDEPENDENT LIVING SERVICES FOR OLDER INDIVID. WHO ARE BLIND	EMPLOYMENT & ECONOMIC DEV.	520,284
84.181	SPECIAL ED. GRANTS FOR INFANTS & FAMILIES WITH DISABILITIES	EDUCATION	6,522,423
84.184	SAFE & DRUG FREE SCHOOLS & COMMUNITIES	EDUCATION	459,924
84.185	BYRD HONORS SCHOLARSHIPS	EDUCATION	722,974
84.186	SAFE & DRUG-FREE SCHOOLS-STATE GRANTS	EDUCATION	6,268,626
84.187	SUPPORTED EMPLOY. SERVICES FOR INDIV W/ SEVERE DISABILITIES	EMPLOYMENT & ECONOMIC DEV.	558,992
84.194	BILINGUAL EDUCATION SUPPORT SERVICES	EDUCATION	2,745,517

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STATE OF MINNESOTA
NONMAJOR FEDERAL PROGRAMS
SCHEDULE OF EXPENDITURES
YEAR ENDED JUNE 30, 2005

CDFA NUMBER	FEDERAL PROGRAM NAME	STATE AGENCY	FEDERAL EXPENDITURES
U.S. DEPARTMENT OF EDUCATION (Continued)			
84.196	EDUCATION FOR HOMELESS CHILDREN & YOUTH	EDUCATION	\$ 497,369
84.213	EVEN START-STATE EDUCATION AGENCIES	EDUCATION	2,146,971
84.224	ASSISTIVE TECHNOLOGY STATE GRANTS	ADMINISTRATION	861,476
84.234	PROJECTS WITH INDUSTRY	EMPLOYMENT & ECONOMIC DEV.	242,288
84.235	REHAB. SERVICES DEMONSTRATION & TRAINING PROGRAM	ADMINISTRATION	316,488
84.243	TECH-PREP EDUCATION	STATE COLLEGES & UNIVERSITIES	1,643,752
84.265	STATE VOC. REHAB. UNIT IN-SERVICE TRAINING	EMPLOYMENT & ECONOMIC DEV.	94,576
84.276	GOALS 2000-STATE & LOCAL ED. IMPROVEMENT	EDUCATION	26,559
84.281	EISENHOWER PROF. DEVELOPMENT- STATE	STATE COLLEGES & UNIVERSITIES	15,258
84.282	CHARTER SCHOOLS	EDUCATION	9,034,417
84.287	TWENTY-FIRST CENTURY COMMUNITY LEARNING	EDUCATION	8,814,805
84.292	BILINGUAL EDUCATION RESEARCH PROGRAMS	EDUCATION	25,760
84.298	STATE GRANTS FOR INNOVATIVE PROGRAMS	EDUCATION	6,811,608
84.314	EVEN START-STATEWIDE LITERACY PROGRAM	EDUCATION	4,540
84.318	EDUCATION TECHNOLOGY STATE GRANTS	EDUCATION	8,537,975
84.323	SPECIAL EDUCATION-STATE PERSONNEL DEVELOPMENT	STATE COLLEGES & UNIVERSITIES	802
84.323	SPECIAL EDUCATION-STATE PERSONNEL DEVELOPMENT	EDUCATION	896,059
84.324	RESEARCH IN SPECIAL EDUCATION	STATE COLLEGES & UNIVERSITIES	880,456
84.324	RESEARCH IN SPECIAL EDUCATION	EDUCATION	79,656
84.325	PERSONNEL PREP. TO IMPROVE SERV. FOR DISABLED CHILDREN	STATE COLLEGES & UNIVERSITIES	310,350
84.326	TECHNICAL ASSISTANCE TO IMPROVE SERVICES-DISABLED CHILDREN	EDUCATION	159,819
84.331	GRANTS TO STATES FOR INCARCERATED YOUTH OFFENDERS	CORRECTIONS	143,575
84.332	COMPREHENSIVE SCHOOL REFORM DEMONSTRATION	EDUCATION	2,467,920
84.333	DEMONSTR. PROJ.-ENSURE STUDENTS W/DISABILITIES REC. HIGHER ED.	STATE COLLEGES & UNIVERSITIES	11,745
84.335	CHILD CARE ACCESS MEANS PARENTS IN SCHOOL	STATE COLLEGES & UNIVERSITIES	99,462
84.336	TEACHER QUALITY ENHANCEMENT GRANTS	STATE COLLEGES & UNIVERSITIES	815,671
84.336	TEACHER QUALITY ENHANCEMENT GRANTS	EDUCATION	2,512,101
84.342	PREPARING TOMORROW'S TEACHERS TO USE TECHNOLOGY	STATE COLLEGES & UNIVERSITIES	5,819
84.344	TRIO DISSEMINATION PARTNERSHIP GRANTS	STATE COLLEGES & UNIVERSITIES	87,345
84.346	OCCUPATIONAL & EMPLOYMENT INFORMATION GRANT	STATE COLLEGES & UNIVERSITIES	147,556
84.357	READING FIRST STATE GRANTS	EDUCATION	9,677,756
84.358	RURAL EDUCATION	EDUCATION	52,238
84.361	VOLUNTARY PUBLIC SCHOOL CHOICE	EDUCATION	1,700,211
84.365	ENGLISH LANGUAGE ACQUISITION GRANTS	EDUCATION	8,292,307
84.366	MATHEMATICS AND SCIENCE PARTNERSHIPS	STATE COLLEGES & UNIVERSITIES	38,004
84.368	GRANTS FOR ENHANCED ASSESSMENT INSTRUMENTS	EDUCATION	1,088,460
84.369	GRANTS FOR STATE ASSESSMENTS & RELATED ACTIVITIES	EDUCATION	7,895,569
U.S. ELECTION ASSISTANCE COMMISSION			
90.401	HELP AMERICA VOTE ACT REQUIREMENTS PAYMENTS	SECRETARY OF STATE	881,827
U.S. DEPARTMENT OF HEALTH & HUMAN SERVICES			
93.006	STATE/TERRITORIAL MINORITY HIV/AIDS DEMONSTRATION PROGRAM	HEALTH	113,628
93.041	PROGRAMS FOR PREVENTION ELDER ABUSE/NEGLECT/EXPLOITATION	HUMAN SERVICES	25,500
93.042	LONG TERM CARE OMBUDSMAN SERVICES FOR OLDER INDIVIDUALS	HUMAN SERVICES	217,005
93.043	AGING-DISEASE PREVENTION & HEALTH PROMOTION SERVICES	HUMAN SERVICES	379,890
93.048	SPECIAL AGING PROGRAMS	HUMAN SERVICES	449,433
93.051	ALZHEIMER'S DISEASE DEMONSTRATION GRANTS TO STATES	HUMAN SERVICES	229,133
93.052	NATIONAL FAMILY CAREGIVER SUPPORT	HUMAN SERVICES	2,379,427
93.103	FOOD & DRUG ADMINISTRATION RESEARCH	AGRICULTURE	258,747
93.110	MATERNAL & CHILD HEALTH-FEDERAL CONSOLIDATED PROGRAMS	HUMAN SERVICES	27,988
93.110	MATERNAL & CHILD HEALTH-FEDERAL CONSOLIDATED PROGRAMS	HEALTH	817,536
93.116	COOP AGREEMENTS FOR TUBERCULOSIS CONTROL PROGRAMS	HEALTH	867,768
93.126	SMALL BUSINESS INNOVATION RESEARCH	HEALTH	37,164
93.127	EMERGENCY MEDICAL SERVICES FOR CHILDREN	EMERGENCY MEDICAL SERVICES BD.	127,722
93.130	PRIMARY CARE SERVICES-RESOURCE COORDINATION AND DEVELOP.	HEALTH	175,280
93.136	INJURY PREVENTION & CONTROL RESEARCH	HEALTH	1,641,930
93.150	PROJECTS FOR ASSISTANCE IN TRANSITION FROM HOMELESSNESS	HUMAN SERVICES	610,000
93.161	HEALTH PROGRAM FOR TOXIC SUBSTANCES & DISEASE REGISTRY	HEALTH	513,695

The notes (referenced in parentheses) are an integral part of these statements.

STATE OF MINNESOTA
NONMAJOR FEDERAL PROGRAMS
SCHEDULE OF EXPENDITURES
YEAR ENDED JUNE 30, 2005

CDFA NUMBER	FEDERAL PROGRAM NAME	STATE AGENCY	FEDERAL EXPENDITURES
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES (Continued)			
93.165	GRANTS TO STATES FOR LOAN REPAYMENT PROGRAM	HEALTH	\$ 126,400
93.184	DISABILITIES PREVENTION	HEALTH	21,245
93.185	IMMUNIZATION, RESEARCH, DEMONS. & CLINICAL SKILLS IMPROVEMENT	HEALTH	178,548
93.189	HEALTH EDUCATION AND TRAINING CENTERS	STATE COLLEGES & UNIVERSITIES	1,800
93.191	ALLIED HEALTH SPECIAL PROJECTS	STATE COLLEGES & UNIVERSITIES	337
93.197	CHILDHOOD LEAD POISONING PREVENTION PROJECT	HEALTH	67,1265
93.204	SURVEILLANCE OF HAZARDOUS SUBSTANCE EMERGENCY EVENTS	HEALTH	65,653
93.217	FAMILY PLANNING SERVICES	HEALTH	190,862
93.230	CONSOLIDATED KNOWLEDGE DEVELOPMENT&APPLICATION PROGRAM	EDUCATION	18
93.230	CONSOLIDATED KNOWLEDGE DEVELOPMENT&APPLICATION PROGRAM	HUMAN SERVICES	152,914
93.230	CONSOLIDATED KNOWLEDGE DEVELOPMENT&APPLICATION PROGRAM	STATE COLLEGES & UNIVERSITIES	6,065
93.235	ABSTINENCE EDUCATION PROGRAM	HEALTH	570,155
93.241	STATE RURAL HOSPITAL FLEXIBILITY PROGRAM	HEALTH	767,934
93.243	SUBSTANCE ABUSE AND MENTAL HEALTH SERVICES	HUMAN SERVICES	58,166
93.245	INNOVATIVE FOOD SAFETY PROJECTS	AGRICULTURE	5,541
93.247	ADVANCED EDUCATION NURSING GRANT PROGRAM	STATE COLLEGES & UNIVERSITIES	1,913
93.251	UNIVERSAL NEWBORN HEARING SCREENING	HEALTH	193,049
93.256	STATE PLANNING-HEALTH CARE ACCESS FOR UNINSURED	HEALTH	237,803
93.259	RURAL ACCESS TO EMERGENCY DEVICES GRANT	EMERGENCY MEDICAL SERVICES BD.	216,955
93.262	OCCUPATIONAL SAFETY & HEALTH PROGRAM	HEALTH	182,532
93.268	CHILDHOOD IMMUNIZATION GRANTS	HEALTH	19,349,670
93.273	ALCOHOL RESEARCH PROGRAMS	STATE COLLEGES & UNIVERSITIES	17,791
93.301	SMALL RURAL HOSPITAL IMPROVEMENT GRANTS	HEALTH	785,695
93.358	ADVANCED EDUCATION NURSING TRAINEESHIPS	STATE COLLEGES & UNIVERSITIES	56,164
93.359	NURSING, EDUCATION, PRACTICE & RETENTION GRANTS	STATE COLLEGES & UNIVERSITIES	646,131
93.359	NURSING, EDUCATION, PRACTICE & RETENTION GRANTS	HEALTH	38,653
93.393	CANCER CAUSE & PREVENTION RESEARCH	HEALTH	253
93.399	CANCER CONTROL	HEALTH	606,152
93.556	PROMOTING SAFE & STABLE FAMILIES	HUMAN SERVICES	5,647,610
93.566	REFUGEE & ENTRANT ASSISTANCE-STATE ADMIN	HUMAN SERVICES	12,308,581
93.569	COMMUNITY SERVICES BLOCK GRANT	HUMAN SERVICES	8,567,155
93.570	COMMUNITY SERVICES BLOCK GRANT DISCRETIONARY AWARDS	HUMAN SERVICES	69,303
93.571	COMMUNITYSERVICES BLOCK GRANT-COMMUNITY FOOD & NUTRITION	HUMAN SERVICES	43,263
93.576	REFUGEE & ENTRANT ASSISTANCE	HEALTH	117,275
93.576	REFUGEE & ENTRANT ASSISTANCE	EDUCATION	999,113
93.576	REFUGEE & ENTRANT ASSISTANCE	HUMAN SERVICES	496,393
93.584	REFUGEE & ENTRANT TARGETED ASSISTANCE GRANTS	HUMAN SERVICES	1,191,164
93.585	EMPOWERMENT ZONES	HUMAN SERVICES	505,499
93.585	STATE COURT IMPROVEMENT PROGRAM	SUPREME COURT	181,752
93.590	COMMUNITY BASED CHILD ABUSE PREVENTION GRANTS	HUMAN SERVICES	1,198,119
93.595	WELFARE REFORM RESEARCH	EMPLOYMENT & ECONOMIC DEV.	220,080
93.597	GRANTS TO STATES FOR ACCESS & VISITATION PROGRAMS	HUMAN SERVICES	37,722
93.599	CHAFEE EDUCATION AND TRAINING VOUCHERS	HUMAN SERVICES	673,731
93.600	HEAD START	EDUCATION	196,700
93.600	HEAD START	STATE COLLEGES & UNIVERSITIES	56,316
93.603	ADOPTION INCENTIVE PAYMENTS	HUMAN SERVICES	77,307
93.617	VOTING ACCESS FOR INDIVIDUALS WITH DISABILITIES-GRANTS	SECRETARY OF STATE	171,646
93.630	DEVELOPMENTAL DISABILITIES-BASIC SUPPORT & ADVOCACY GRANTS	ADMINISTRATION	969,888
93.631	DEVELOPMENTAL DISABILITIES-PROJECTS OF NATIONAL SIGNIFICANCE	ADMINISTRATION	125,796
93.643	CHILDREN'S JUSTICE-GRANTS TO STATES	HUMAN SERVICES	243,128
93.645	CHILD WELFARE SERVICES-STATE GRANTS	HUMAN SERVICES	4,401,479
93.647	SOCIAL SERVICES RESEARCH & DEMONSTRATION	HUMAN SERVICES	73,543
93.648	CHILD WELFARE SERVICES TRAINING GRANTS	STATE COLLEGES & UNIVERSITIES	63,393
93.652	ADOPTION OPPORTUNITIES	HUMAN SERVICES	333,510
93.667	SOCIAL SERVICES BLOCK GRANT	HUMAN SERVICES	35,871,427
93.669	CHILD ABUSE & NEGLECT STATE GRANTS	HUMAN SERVICES	296,546
93.671	FAMILY VIOLENCE PREV./GRANTS-BATTERED WOMEN'S SHELTERS	PUBLIC SAFETY	1,479,218
93.674	CHAFEE FOSTER CARE INDEPENDENCE PROGRAM	HUMAN SERVICES	1,854,004
93.768	MEDICAID INFRASTRUCTURE GRANTS-EMPLOY.-PEOPLE W/ DISABILITIES	HUMAN SERVICES	2,152,607
93.769	DEMONSTRATION TO MAINTAIN INDEPENDENCE & EMPLOYMENT	HUMAN SERVICES	41,194
93.779	CENTERS FOR MEDICARE/MEDICAID SERVICES-RESEARCH, DEMONST.	HUMAN SERVICES	1,521,891
93.786	STATE PHARMACEUTICAL ASSISTANCE PROGRAM	HUMAN SERVICES	122,974
93.822	HEALTH CAREERS OPPORTUNITY PROGRAM	STATE COLLEGES & UNIVERSITIES	28,073

The notes (referenced in parentheses) are an integral part of these statements.

STATE OF MINNESOTA
NONMAJOR FEDERAL PROGRAMS
SCHEDULE OF EXPENDITURES
YEAR ENDED JUNE 30, 2005

CDFA NUMBER	FEDERAL PROGRAM NAME	STATE AGENCY	FEDERAL EXPENDITURES
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES (Continued)			
93.848	DIGESTIVE DISEASES & NUTRITION RESEARCH	HEALTH	\$ 180,724
93.856	MICROBIOLOGY & INFECTIOUS DISEASES RESEARCH	STATE COLLEGES & UNIVERSITIES	33,190
93.865	CHILD HEALTH & HUMAN DEV. EXTRAMURAL RESEARCH	STATE COLLEGES & UNIVERSITIES	44,279
93.889	NATIONAL BIOTERRORISM HOSPITAL PREPAREDNESS PROGRAM	HEALTH	8,542,048
93.913	GRANTS TO STATES FOR OPERATION OF OFFICES OF RURAL HEALTH	HEALTH	125,776
93.917	HIV CARE FORMULA GRANTS	HUMAN SERVICES	4,535,737
93.919	COOP AGREEMENTS BREAST & CERVICAL CANCER EARLY DETECTION	HEALTH	4,219,190
93.938	SCHOOL HEALTH PROGS-PREVENT SPREAD- HIV/OTHER HEALTH ISSUES	EDUCATION	411,681
93.940	HIV PREVENTION ACTIVITIES-HEALTH DEPT BASED	HEALTH	3,099,384
93.944	HIV/AIDS SURVEILLANCE	HEALTH	327,666
93.945	ASSISTANCE PROGRAMS-CHRONIC DISEASE PREVENTION AND CONTROL	HEALTH	683,471
93.952	TRAUMA CARE SYSTEMS PLANNING & DEVELOPMENT	HEALTH	44,067
93.958	BLOCK GRANT FOR COMMUNITY MENTAL HEALTH SERVICES	HUMAN SERVICES	5,996,906
93.969	GERIATRIC EDUCATION CENTERS	STATE COLLEGES & UNIVERSITIES	30,395
93.977	SEXUALLY TRANSMITTED DISEASES CONTROL GRANTS	HEALTH	962,962
93.988	COOP AGREEMENTS-STATE DIABETES CONTROL & SURVEILLANCE	HEALTH	841,016
93.989	INTERNATIONAL RESEARCH & RESEARCH TRAINING	STATE COLLEGES & UNIVERSITIES	131,424
93.991	PREVENTIVE HEALTH & HEALTH SERVICES BLOCK GRANT	PUBLIC SAFETY	117,675
93.991	PREVENTIVE HEALTH & HEALTH SERVICES BLOCK GRANT	HEALTH	3,155,290
93.994	MATERNAL & CHILD HEALTH SERVICES BLOCK GRANT	HEALTH	9,922,033
U.S. CORPORATION FOR NATIONAL & COMMUNITY SERVICE COMMISSION			
94.004	LEARN & SERVE AMERICA-SCHOOL & COMMUN. BASED PROGRAMS	EDUCATION	335,105
94.004	LEARN & SERVE AMERICA-SCHOOL & COMMUN. BASED PROGRAMS	STATE COLLEGES & UNIVERSITIES	1,465
94.005	LEARN & SERVE AMERICA-HIGHER EDUCATION	STATE COLLEGES & UNIVERSITIES	36,509
94.006	AMERICORPS	STATE COLLEGES & UNIVERSITIES	398,396
U.S. SOCIAL SECURITY ADMINISTRATION			
Disability Insurance/SSI Cluster			
96.001	SOCIAL SECURITY-DISABILITY INSURANCE	EMPLOYMENT & ECONOMIC DEV.	21,349,807
		Disability Insurance/SSI Cluster Total \$	21,349,807
96.007	SOCIAL SECURITY RESEARCH & DEMONSTRATION	EMPLOYMENT & ECONOMIC DEV.	204,272
96.007	SOCIAL SECURITY RESEARCH & DEMONSTRATION	HUMAN SERVICES	1,518
96.008	SOCIAL SECURITY-BENEFITS PLANNING, ASSIST, OUTREACH PROGRAM	EMPLOYMENT & ECONOMIC DEV.	320,384
U.S. DEPARTMENT OF HOMELAND SECURITY			
97.008	URBAN AREAS SECURITY INITIATIVE	PUBLIC SAFETY	1,848,912
97.012	BOATING SAFETY FINANCIAL ASSISTANCE	NATURAL RESOURCES	1,766,840
97.020	HAZARDOUS MATERIALS TRAINING PROGRAM	PUBLIC SAFETY	3,333
97.020	HAZARDOUS MATERIALS TRAINING PROGRAM	STATE COLLEGES & UNIVERSITIES	10,621
97.021	HAZARDOUS MATERIALS ASSISTANCE PROGRAM	PUBLIC SAFETY	1,176
97.023	COMMUNITY ASSISTANCE PROGRAM STATE SUPPORT SERVICES	NATURAL RESOURCES	115,730
97.029	FLOOD MITIGATION ASSISTANCE	NATURAL RESOURCES	223,469
97.032	CRISIS COUNSELING	PUBLIC SAFETY	33,695
97.034	DISASTER UNEMPLOYMENT ASSISTANCE	EMPLOYMENT & ECONOMIC DEV.	65,154
97.036	DISASTER GRANTS-PUBLIC ASSISTANCE	PUBLIC SAFETY	5,438,086
97.036	DISASTER GRANTS-PUBLIC ASSISTANCE	NATURAL RESOURCES	85,315
97.039	HAZARD MITIGATION GRANT	PUBLIC SAFETY	4,687,107
97.041	NATIONAL DAM SAFETY PROGRAM	NATURAL RESOURCES	52,739
97.042	EMERGENCY MANAGEMENT PERFORMANCE GRANTS	PUBLIC SAFETY	2,335,315
97.047	PRE-DISASTER MITIGATION	PUBLIC SAFETY	153,373
97.053	CITIZEN CORPS	PUBLIC SAFETY	188,495
97.061	CENTERS FOR HOMELAND SECURITY	AGRICULTURE	34,494
97.067	HOMELAND SECURITY GRANT PROGRAM	PUBLIC SAFETY	1,959,939
97.067	HOMELAND SECURITY GRANT PROGRAM	STATE COLLEGES & UNIVERSITIES	8,257
97.070	MAP MODERNIZATION MANAGEMENT SUPPORT	NATURAL RESOURCES	99,999
Total Nonmajor Programs \$			560,154,213

The notes (referenced in parentheses) are an integral part of these statements).

State of Minnesota
Financial and Compliance Report on Federally Assisted Programs
Fiscal Year Ended June 30, 2005

Notes to the Schedules of Expenditures of Federal Awards

These notes provide disclosures relevant to the schedules of expenditures of federal awards presented on the preceding pages.

Note 1 – Summary of Significant Accounting Policies

Basis of Presentation

The reporting policies for fiscal year 2005 conform to the Federal Single Audit Act of 1984 as amended in 1996 and the U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. The required Schedule of Expenditures of Federal Awards is presented for the state's fiscal year ended June 30, 2005. The Schedule of Expenditures of Federal Awards is divided into two sections: major and nonmajor federal programs.

The auditor uses a risk-based approach as defined in the OMB Circular A-133 to determine which federal programs are major programs. Programs expending \$20.4 million or more in federal awards are Type A programs and are considered major programs. Type B programs are programs expending less than \$20.4 million in federal awards. If the auditor assesses Type A programs as low-risk, the auditor may replace Type A programs by higher risk Type B programs as major programs.

For purposes of financial reporting, the Catalog of Federal Domestic Assistance (CFDA) number from the June 2005 basic edition catalog identifies federal programs. The schedules are presented in numeric CFDA order within each federal agency.

Financial Reporting Entity of the State of Minnesota

The financial reporting entity for the state of Minnesota includes all state departments, agencies, institutions, and organizational units, which are controlled by or dependent upon the Minnesota Legislature and/or its constitutional officers. The state, a primary government, has considered for inclusion all potential component units for which it may be financially accountable or other organizations for which the nature and significance of their relationship with the state are such that exclusion would cause the report to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be used in determining financial accountability. These criteria include the state's ability to appoint a voting majority of an organization's governing body and either the ability of the state to impose its will on that organization, or the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the state.

The federal programs included in the schedule of expenditures of federal awards in this report are part of the state's primary government. The federal programs administered by discretely presented component units are not presented in this report, but in single audit reports issued by these entities.

Minnesota State Colleges and Universities (MnSCU), which is part of the primary government, consists of the following education facilities:

Alexandria Technical College	Minnesota State University, Moorhead
Anoka-Ramsey Community College	Minnesota West Community & Tech. College
Anoka Technical College	Normandale Community College
Bemidji State University	North Hennepin Community College
Central Lakes College	Northland Community & Technical College
Century College	Northwest Technical College
Dakota County Technical College	Pine Technical College
Fond du Lac Tribal & Community College	Rainy River Community College
Hennepin Technical College	Ridgewater College
Hibbing Community College	Riverland Community College
Inver Hills Community College	Rochester Community & Technical College
Itasca Community College	St. Cloud State University
Lake Superior College	St. Cloud Technical College
Mesabi Range Community & Technical College	Saint Paul College
Metropolitan State University	South Central Technical College
Minneapolis Community & Technical College	Southwest Minnesota State University
Minnesota State College – Southeast Technical	Vermilion Community College
Minnesota State Community & Technical College	Winona State University
Minnesota State University, Mankato	

Basis of Accounting

The state's Comprehensive Annual Financial Report and these supplemental schedules are presented in accordance with generally accepted accounting principles, following the accrual or modified accrual basis of accounting, as appropriate for the fund structure. Most federal activity is accounted for in the Federal Fund (a major governmental fund), but several other nonmajor special revenue funds (Trunk Highway, Municipal State-Aid Street, County State-Aid Highway, Natural Resources, Game and Fish, and Miscellaneous Special Revenue funds), major proprietary funds (State Colleges and Universities and Unemployment Insurance funds), and the General Fund (a major governmental fund), include federal activity. The Minnesota Accounting and Procurement System is the primary source of financial information. Some state agencies maintain additional manual records or separate cost accounting systems to provide additional information.

Classification of Statement Information

Expenditures are presented for all federal programs and include amounts subgranted to other state or local governmental units, nongovernmental organizations, or individuals. Subgrant expenditures are recognized by the primary state agency subgranting the funds, not by the state agency receiving a subgrant from the primary state agency, except for portions of Temporary Aid for Needy Families (TANF) (CFDA 93.558). TANF subgrants, which are transferred into the Social Services Block Grant (CFDA 93.667) and the Child Care Development Block Grant (CFDA 93.575), are included in those programs and not TANF.

Note 2 – Perkins and Nursing Student Loan Programs

The amount reported on the financial statements for the Perkins Loans (CFDA 84.038) for MnSCU is the administrative and collection costs. Below is a summary of the loan activity for the Perkins Loans and Nursing Loans (NSL) program (CFDA 93.364) during fiscal year 2005.

	<u>Perkins</u>	<u>NSL</u>
Loans Receivable, Beginning	\$ 35,959,291	\$ 88,805
Loan Repayments	(6,871,622)	(35,648)
Loan Cancellations	(561,768)	-
New Loans Issued	7,788,593	-
Loans Receivable, Ending	<u>\$ 36,314,494</u>	<u>\$ 53,157</u>

Note 3 – Federal Family Education Loan Programs

MnSCU financial records provide information on various federal higher education student loan programs for which the state does not manage the federal funds.

Under the Federal Family Education Loans (FFEL) program (CFDA 84.032), financial institutions make loans to students attending institutions of higher education. The Federal Direct Student Loan (FDSL) program (CFDA 84.268) operates similarly to the FFEL program except that the federal government, rather than a private lender, provides the loan principal to the student. MnSCU distributed the following FFEL and FDSL loans to students attending state colleges or universities during fiscal year 2005.

Federal Family Education Loans Issued:	
Federal Subsidized Stafford	\$ 149,382,962
Federal Unsubsidized Stafford	123,846,944
Federal Parent Loans for Undergraduate Students	3,611,196
Total Federal Family Education Loans	<u>\$ 276,841,102</u>
Federal Direct Student Loans	<u>\$ 49,142,104</u>

Note 4 – Oil Overcharge Funding

Grants made from oil overcharge funds are included in this report as federal expenditures for the Weatherization Assistance (CFDA 81.042) program. Loans are also administered from these funds by the departments of Finance and Commerce. A summary of the loan activity for fiscal year 2005 is shown below.

	<u>Finance</u>	<u>Commerce</u>
Loans Receivable, Beginning	\$ 116,553	\$ 821,835
Loan Repayments	(71,799)	(213,323)
New Loans Issued	25,566	682,856
Loans Receivable, Ending	<u>\$ 70,320</u>	<u>\$ 1,291,368</u>

Note 5 – Rebates

The Supplemental Food Program for Women, Infants, and Children (WIC) Program (CFDA 10.557), administered through the Minnesota Department of Health, receives cash rebates from infant formula manufacturers. The rebates are used to offset program costs and are reported as expenditure reductions. During fiscal year 2005, the state of Minnesota received a total rebate of \$25,168,790 on sales of formula to participants in the WIC program.

The Medical Assistance Program (CFDA 93.778), administered through the Minnesota Department of Human Services, receives cash rebates from drug labelers. The rebates are used to offset program costs and are reported as expenditure reductions. During fiscal year 2005, the state of Minnesota received a total rebate of \$128,300,251 on sales of drugs to participants in the Medical Assistance Program.

Note 6 – Unemployment Insurance Program

For fiscal year 2005, expenditures for the Unemployment Insurance Program (CFDA 17.225) include federal and state unemployment insurance grant expenditures as well as federal administrative expenditures. The federal unemployment insurance grant expenditures were \$9,371,318 and the state unemployment insurance grant expenditures were \$658,335,275. The federal administrative expenditures were \$49,598,250. The Unemployment Insurance Program serves workers who are unemployed through no fault of their own and are seeking reemployment. To receive benefits, claimants must be able to work, available for work, and actively seeking work. For audits and reporting under OMB Circular A-133, the U.S. Department of Labor requires that both federal and state unemployment insurance funds be considered federal awards for determining Type A (major) federal programs and for reporting expenditures of federal awards.

Note 7 – Water Quality Capitalization Grants

Water quality capitalization grants (CFDA 66.458) are used by states to create revolving funds to provide financing for construction of wastewater treatment facilities and implementation of other water quality management activities. Loans are administered from these funds by the departments of Employment and Economic Development (DEED), Agriculture, and Pollution Control. The state's loan programs are Tourism Septic Loan (TLP), Small Cities (SCDP), Agriculture Best Management Practices (AG BMP) and Clean Water Partnership (CWP). A summary of the loan activity for fiscal year 2005 is shown below.

	<u>TLP</u>	<u>SCDP</u>	<u>AG BMP*</u>	<u>CWP</u>
Loans Receivable, Beginning	\$ 309,956	\$ 526,617	\$ 39,823,558	\$ 13,207,222
Loan Repayments	(81,163)	(66,745)	(1,305,861)	(1,445,776)
New Loans Issued	-	-	4,397,671	2,297,923
Interest Capitalized	-	-	-	103,341
Loans Receivable, Ending	<u>\$ 228,793</u>	<u>\$ 459,872</u>	<u>\$ 42,915,368</u>	<u>\$ 14,162,710</u>

* The beginning balance shown is \$23,325 less than the ending balance for fiscal year 2004. For fiscal year 2004, DEED's calculations were used. However, since the Department of Agriculture prepares the financial statements for these loans, these financial statements were used for fiscal year 2005 numbers.

Note 8 – CFDA Numbers

For certain programs, the correct CFDA number could not be determined. At times, state agencies receive federal grant funds from a federal agency with a program number instead of a CFDA number. When possible, a CFDA number was obtained for the program. Certain CFDA numbers presented are no longer operating programs. These programs resulted in funds being carried over from previous years. In other cases, the Department of Finance assigned a number. State agencies using the number assigned by the Department of Finance in fiscal year 2005 were asked to work with the federal granting agency to obtain a valid CFDA number for the grant program.

Note 9 – Jobs and Growth Tax Relief Reconciliation Act of 2003

The state of Minnesota received \$167,287,927 from the U.S. Department of the Treasury under the Jobs and Growth Tax Relief Reconciliation Act of 2003. These funds are to be used to: 1) provide essential government services or, 2) cover the costs to the state of complying with any Federal intergovernmental mandate to the extent that the mandate applies to the state and the federal government has not provided funds to cover the costs. Since a specific CFDA number was not assigned, the Department of Finance assigned CFDA number 21.xxx for this program.

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Minnesota Office of the Legislative Auditor
Schedule of Findings and Questioned Costs
Fiscal Year Ended June 30, 2005

The Schedule of Findings and Questioned Costs consists of three sections:

- Section I: Summary of Auditor's Results
- Section II: Findings related to the financial statements that are required to be reported in accordance with *Government Auditing Standards*
- Section III: Findings and Questioned Costs for federal awards.

In Section I, the results of our audit are highlighted concerning the State of Minnesota's financial statements, federal awards, and the identification of major programs audited.

In Section II, a summary schedule of financial statement audit findings lists four of our reports to state agencies in which six financial statement audit findings were identified and required to be reported by *Government Auditing Standards*. The summary identifies our unique report number (RPT NO) for that agency in the XX-XX format (i.e. 06-09) of our separately issued reports and the finding number (FIND NO) as presented in our report. The summary also identifies whether the finding is an internal control (INT CONT) issue or a compliance issue (COMP REQ). Six internal control issues are identified that are considered to be reportable conditions (R). There were no reportable conditions considered to be material weaknesses. Following the summary schedule are the audit findings as they appear in our separately issued reports. The state agencies' corrective action plans follow each finding.

In Section III, a summary schedule of federal program audit findings is presented in CFDA number order within each federal awarding agency. This schedule summarizes our report findings by CFDA number, program name, and state agency. The summary identifies our unique report number (RPT NO) for that agency in the XX-XX format (i.e. 06-10) of our separately issued reports and the finding number (FIND NO) as presented in our report. The summary also identifies whether the finding is an internal control (INT CONT) issue or a compliance issue (COMP REQ). Internal control issues are identified as either reportable conditions (R) or material weaknesses (M). The compliance requirements will identify the compliance requirement A through N the finding relates to. The summary also provides a short statement of the problem and its financial impact (FIN IMPACT) as procedural (P), nonquantifiable (NQ), or show a dollar amount (questioned cost). Following the summary schedule are the federal program audit findings as they appear in our separately issued reports and the Minnesota State Colleges and Universities (MnSCU) report of Kern-DeWenter-Viere (KDV). The state agencies' corrective action plans follow each finding.

**Minnesota Office of the Legislative Auditor
Schedule of Findings and Questioned Costs
Fiscal Year Ended June 30, 2005**

Section I:

Summary of Auditor's Results

Financial Statements

Type of independent auditor's report issued: Unqualified

Internal control over financial reporting:

Material weakness(es) identified? _____ Yes X No

Reportable condition(s) identified
not considered to be material weaknesses? X Yes _____ No

Noncompliance material to financial statements noted? _____ Yes X No

Federal Awards

Internal control over major programs:

Material weakness(es) identified? X Yes _____ No

Reportable condition(s) identified
not considered to be material weaknesses? X Yes _____ No

Type of auditor's report issued on compliance
for major programs:

**Qualified for Medical Assistance,
Temporary Assistance for Needy
Families and State Children's
Health Insurance Program.
Unqualified for all other major
programs.**

Any audit findings disclosed that are required to be reported
in accordance with Circular A-133, Section .510(a)? X Yes _____ No

Identification of Major Programs (See listing on next page)

Dollar threshold used to distinguish between
Type A and Type B programs: \$20.4 Million

Auditee qualified as low-risk auditee? _____ Yes X No

**Minnesota Office of the Legislative Auditor
Schedule of Findings and Questioned Costs
Fiscal Year Ended June 30, 2005**

Section I: (continued)

Listing of Major Programs Audited

<u>Federal Agency and Major Program Name</u>	<u>CFDA#</u>
U. S. Department of Agriculture	
Special Nutrition for Women, Infants & Children	10.557
Child & Adult Care Food Program	10.558
<i>Child Nutrition Cluster</i>	
School Breakfast	10.553
National School Lunch	10.555
Special Milk for Children	10.556
Summer Food Service for Children	10.559
<i>Food Stamp Cluster</i>	
Food Stamps	10.551
State Admin. Match Grant - Food Stamps	10.561
U. S. Department of Defense	
National Guard Bureau	12.401
U. S. Department of Housing and Urban Development	
Community Development Block Grants	14.228
U. S. Department of Labor	
<i>Employment Services Cluster</i>	
Employment Service	17.207
Disabled Veterans Outreach Program	17.801
Local Veterans' Employment Representative	17.804
<i>Workforce Investment Act (WIA) Cluster</i>	
WIA – Adult Program	17.258
WIA – Youth Activities	17.259
WIA – Dislocated Workers	17.260
Unemployment Insurance	17.225
U. S. Department of Transportation	
<i>Highway Planning and Constructions Cluster</i>	
Highway Planning & Construction	20.205
Airport Improvement	20.106
U. S. Department of the Treasury	
Jobs & Growth Tax Relief Reconciliation Act	21.xxx

**Minnesota Office of the Legislative Auditor
Schedule of Findings and Questioned Costs
Fiscal Year Ended June 30, 2005**

Section I: (continued)

U. S. General Services Administration	
Election Reform Payments	39.011
U. S. Department of Education	
<i>Special Education Cluster</i>	
Special Education - State Grants	84.027
Special Education - Preschool Grants	84.173
<i>Student Financial Assistance Cluster</i>	
Supplemental Education Opportunity Grant	84.007
Federal Family Education Loans	84.032
Federal Work-Study	84.033
Federal Perkins Loan	84.038
Federal Pell Grant	84.063
Federal Direct Student Loans	84.268
Nursing Student Loans	93.364
Title 1 Grants to Local Education Agencies	84.010
Rehabilitation Services - Vocational Rehabilitation Grants	84.126
Improving Teacher Quality State Grants	84.367
U. S. Department of Health & Human Services	
<i>Aging Cluster</i>	
Aging Support Services and Senior Centers	93.044
Aging Nutrition Services	93.045
Nutrition Services Incentive Program	93.053
<i>Child Care Cluster</i>	
Child Care & Development Block Grant	93.575
Child Care Mandatory & Matching Funds	93.596
<i>Medicaid Cluster</i>	
State Medicaid Fraud Control Units	93.775
State Health Care Providers Survey	93.777
Medical Assistance	93.778
Center For Disease Control & Prevention	93.283
Temporary Assistance for Needy Families	93.558
Child Support Enforcement	93.563
Low-Income Home Energy Assistance	93.568
Foster Care Title IV-E	93.658
State Children's Insurance Program	93.767
Block Grants for Prevention and Treatment of Substance Abuse	93.959
U. S. Department of Homeland Security	
State Domestic Preparedness Equipment Support Program	97.004

MINNESOTA OFFICE OF THE LEGISLATIVE AUDITOR
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
SECTION II
FINANCIAL STATEMENT AUDIT FINDINGS
FISCAL YEAR ENDED JUNE 30, 2005

STATE AGENCY	AREA	RPT NO	FIND NO	INT CONT	COMP REQ	PROBLEM
Employment & Economic Development	Unemployment Insurance	06-09	1	R		Inadequate measurement of estimated year-end revenue accruals.
Human Services	Financial Reporting	06-10	3	R		Inaccurate reporting of spending on federal schedule of expenditures.
Finance	Financial Reporting	06-11	1	R		Preliminary financial statements required significant audit adjustments.
Finance	Financial Reporting	06-11	2	R		Improper accounting for local government reimbursements of construction costs.
Finance	Computer Access Security	06-11	3	R		Incompatible employee access to the state's accounting system.
Transportation	Financial Reporting	06-12	1	R		Improper accounting for local government reimbursements of construction costs.

Notes:

This summary schedule highlights financial statement audit findings presented in the Minnesota Office of the Legislative Auditor's reports to the affected state agencies. The "RPT NO" are the report numbers in the format OX-XX, which refer to individual agency reports; and the "FIND NO" are finding numbers within those reports. The findings relate to either internal control (INT CONT) or compliance (COMP REQ). Internal control findings are either reportable conditions (R) or material weaknesses (M). These reports may be accessed at www.auditor.leg.state.mn.us.

State of Minnesota
Financial and Compliance Report on Federally Assisted Programs
Fiscal Year Ended June 30, 2005

Index of Section II
Financial Statement Audit Findings

<u>Report Number</u>	<u>State Agency</u>	<u>Page</u>
Report 06-09	Employment and Economic Development	33
Report 06-10	Human Services	35
Report 06-11	Finance	36
Report 06-12	Transportation	41

Minnesota Office of the Legislative Auditor
Schedule of Findings and Questioned Costs
Section II: Financial Statement Audit Findings

Report 06-09

State Agency: Minnesota Department of Employment and Economic Development

Finding 06-09-1 *Inadequate measurement of estimated year-end revenue accruals.*

1. **The Department of Employment and Economic Development (DEED) did not effectively identify certain Unemployment Insurance Fund accruals and transfers.**

DEED had difficulty measuring some year-end revenue accruals for the Unemployment Insurance Fund (CFDA #17.225) and did not provide a clear trail for money it sent to other governmental funds. These problems caused delays in financial reporting to the Department of Finance for inclusion in the State of Minnesota's *Comprehensive Annual Financial Report*.

The department's implementation of a new computerized unemployment tax system in June 2005 complicated its ability to estimate certain year-end revenue accruals. The new system calculated and collected employer taxes beginning in the second quarter of 2005; those taxes were due July 31, 2005. Financial accounting staff reconciled cash collections to amounts reported in the new tax system for this quarter and properly accrued cash received after June 30, 2005. However, staff had difficulty measuring other year-end revenue accruals for employer accounts with credit balances and uncollected amounts owed by employers. A recent change in unemployment tax law eliminated estimated billings sent to taxpaying employers who have not filed. The law change created a need for the department to develop other estimation methods, such as determining historical patterns for delinquent tax collections. Accounting staff did not have access to data in the new tax system and had to rely on other means to estimate approximately \$20 million of year-end revenue accruals. For one type of estimate, they used the prior year's amount. Poor estimation methods and a lack of refinement based on subsequent collection patterns could lead to inaccurate financial reporting of fund revenues and receivables.

In a second concern, DEED staff did not always clearly identify which governmental funds they transferred unemployment insurance monies into. Unemployment insurance collections included other revenues authorized to fund the department's technology initiative and the state dislocated worker program. The department accumulated these collections in a bank account outside the state treasury and periodically transferred money to the state treasury for deposit. However, they did not clearly identify the state treasury fund and accounts where \$1.8 million of receipts were deposited. Furthermore, the department inconsistently recorded a \$1 million transfer into the Workforce Development Fund as a nondedicated rather than dedicated receipt. Additional scrutiny and review of unemployment insurance transfers by DEED before submitting the information to the Department of Finance would improve the control over and the efficiency of the reporting process.

Minnesota Office of the Legislative Auditor
Schedule of Findings and Questioned Costs
Section II: Financial Statement Audit Findings - Continued

Recommendation

- *The department should improve unemployment insurance financial reporting by developing methods for estimating year-end revenue accruals and work with the Department of Finance to develop an effective process to ensure accurate recording and tracking of transfers to other governmental funds.*

Minnesota Department of Employment and Economic Development Response:

We agree. DEED will use the ETA 581 report for estimating the revenue accrual for non-filers. DEED continues to develop the UI TIP credit and accrual, reporting capabilities.

DEED will communicate with the Department of Finance regarding a clear format to identify funds accrued to the state treasury. DEED will work with the Executive Budget Officer to correctly classify receipts available for transfer.

Persons Responsible: Kathy Nelson
John Stavros

Estimated Completion Date: June 30, 2006

Minnesota Office of the Legislative Auditor
Schedule of Findings and Questioned Costs
Section II: Financial Statement Audit Findings - Continued

Report 06-10

State Agency: Minnesota Department of Human Services

Finding 06-10-3 *Inaccurate reporting of spending on federal schedule of expenditures.*

3. The Department of Human Services did not accurately report federal spending in the state's financial reports.

The department has not maintained sufficient internal controls to ensure the reporting accuracy of federal program expenditures for the schedule of federal expenditures published in the *Minnesota Financial and Compliance Report on Federally Assisted Programs*. Program accountants at the department use preliminary data supplied by the Department of Finance to calculate the federal programs' expenditure amounts.

The accountants made numerous errors when determining the expenditure amounts for their schedules. The errors included failing to correctly record expenditure accruals, misclassifying certain transactions, and making mathematical errors. Also, in some cases, the accountants did not report amounts in the federal program schedules consistent with amounts reported in the state's financial statements. These errors and inconsistencies resulted in audit adjustments totaling nearly \$188 million.

Recommendation

- *The department should improve controls over financial reporting by adequately training staff and verifying the accuracy and completeness of federal program schedules.*

Minnesota Department of Human Services Response:

The department agrees with the recommendation. The department will increase management review of the federal program schedules to assure that they are consistent with amounts reported in the state's financial statements. The department will work with the Department of Finance to improve the reporting of human service programs' financial statement accruals and reclassifications.

Person Responsible: Marty Cammack

Estimated Completion Date: October 31, 2006

Minnesota Office of the Legislative Auditor
Schedule of Findings and Questioned Costs
Section II: Financial Statement Audit Findings - Continued

Report 06-11

State Agency: Minnesota Department of Finance

Finding 06-11-1 *Preliminary financial statements required significant audit adjustments.*

- 1. The Department of Finance submitted preliminary financial statements for audit that required significant adjustments.**

The number and size of audit adjustments we proposed, and the Department of Finance made, to the state's preliminary financial statements this year demonstrate that there are weaknesses in the State of Minnesota's financial reporting process. This year we proposed numerous audit adjustments resulting in significant changes to the state's preliminary financial statements. Five adjustments that reclassified revenue and expenditure amounts on the financial statements exceeded \$80 million each; three of these adjustments impacted the University of Minnesota, a major component unit, and one adjustment impacted the Federal Fund, another major fund. We proposed about 20 additional adjustments that individually ranged between \$10 million and \$50 million. In addition, we proposed many other adjustments that each totaled between \$1 million and \$5 million.

We are concerned that the department's financial reporting process did not identify the necessity for the adjustments prior to our involvement. On the other hand, the department believes its final procedures to reconcile amounts within the financial statements and footnotes would have detected the need for many of the adjustments. The department acknowledges, however, that it completes many of these control procedures several weeks after it has provided the preliminary financial statements to us. Management is responsible for preparing the financial statements, and our role as auditors is to determine whether the financial statements prepared by management are fairly presented. While the extent of the audit adjustments is of significant concern, ultimately, we issued an unqualified opinion on the state's financial statements because we concluded that the adjusted statements were fairly presented in accordance with generally accepted accounting principles.

Most of the proposed audit adjustments resulted in reclassifications of revenue and expenditure amounts. The materiality of the adjustments resulting in reclassifications, which are not as critical as adjustments affecting fund balance or net assets, could lead a financial statement user to draw erroneous conclusions if the amounts had not been adjusted.

In addition to our proposed audit adjustments, we also worked with Finance and other state agency staff to make further adjustments to the preliminary financial statement amounts. Those adjustments included an accrual for tobacco settlement revenue of \$85.8 million that was similar to an audit adjustment made in fiscal year 2004. We also worked with employees from the Department of Employment and Economic Development and Finance to make an adjustment of \$20 million to the financial statements of the Unemployment Insurance Fund, a major fund in the state's financial statements.

Minnesota Office of the Legislative Auditor
Schedule of Findings and Questioned Costs
Section II: Financial Statement Audit Findings - Continued

There are several factors that the Department of Finance will need to evaluate in order to improve the financial reporting process. The department needs to strengthen its coordination efforts with accounting personnel in other state agencies. Sometimes, state agencies process transactions in the accounting system that need to be treated differently for financial statement presentation. The department will also need to determine if the accounting personnel in other state agencies need additional training or oversight to prepare financial statements that are materially correct and to reduce the reliance on audit adjustments.

Internally, the department will need to determine if it has sufficient resources, in terms of numbers of employees and appropriate job classifications, to prepare accurate financial statements. In recent years, the department has devoted fewer resources to financial statement preparation and, due to personnel turnover, has had less-experienced staff preparing financial statements. Also, the financial reporting unit needs to strengthen its quality control procedures. Some of this year's adjustments should have been identified by Finance staff since they were similar to last year. In addition, more timely procedures to analyze and follow up on significant variances between years would have identified several of the audit adjustments we proposed.

The Department of Finance has a conscientious and dedicated staff that are responsible for preparing the state's financial statements. The department has been very responsive in resolving specific findings and recommendations related to the financial reporting process in the past. However, unless the department addresses the weaknesses in the process described above, the need for significant audit adjustments to the state's preliminary financial statements will likely continue to exist.

Recommendation

- *The Department of Finance should analyze the state's financial reporting process to identify changes necessary to improve the effectiveness of the financial reporting process. The analysis should consider:*
 - *how to achieve more effective coordination with other state agency accounting personnel;*
 - *whether the department has committed sufficient resources to the financial reporting process; and*
 - *ways to improve the internal quality control procedures over financial statement preparation and the timing of those procedures.*

Minnesota Department of Finance Response:

We are committed to issuing timely, accurate financial statements. The state's accounting system operates primarily on a modified cash basis of accounting and requires a significant amount of adjustments to get to a GAAP basis. Over time, we have made improvements in the process to capture and automate many of these adjustments. We continue to work with many other agencies to obtain the necessary information to prepare additional adjustments as necessary.

Minnesota Office of the Legislative Auditor
Schedule of Findings and Questioned Costs
Section II: Financial Statement Audit Findings - Continued

We recognize the importance of information received from other agencies. We will continue to work with agencies on improving financial reporting information accuracy. We are in the process of implementing a statewide Code of Conduct policy that supports the preparation of accurate and reliable financial statements in accordance with GAAP by increasing accountability and strengthening governance. In addition, we have recently rewritten our internal control policy to clarify the requirements for agencies to ensure proper internal controls are in place to provide reliable financial reporting information. Training is being provided on these policies to all state agencies with accounting, auditing, financial reporting, and tax filing duties. We also plan to enhance communications with agencies and continue to provide training to ensure accurate receipt of information to be included in the financial statements.

In order to issue more timely financial statements, some of the reconciliations and analytical review procedures were completed after the preliminary fund financial statements were sent to the auditors. To strengthen the process, the following changes will be implemented:

- Change the fund financial statement completion schedule to ensure adequate time to perform and document analytical reviews prior to sending the fund statements to the auditors.
- Review the documentation for the larger funds by an independent accountant to ensure fund files are complete and properly documented.
- Strengthen checklist on adjustments included in each fund file to ensure proper understanding and sign-offs on completion.
- Consider earlier preparation of note information associated with agency prepared funds and component units, as the fund is completed.
- Consider earlier review of the interfund reports prior to sending fund statements to the auditors, while recognizing that subsequent adjustments may be necessary.

The additional resources needed to accomplish these changes will likely come from timeline adjustments rather than devoting additional staff to the preparation of the financial statements.

We also recognize the financial reporting unit has experienced significant turnover in recent years. We have been and will continue to work on retention issues in this area. In addition, we are committed to adequately training and developing staff to ensure they have the skills necessary to prepare accurate and reliable financial statements.

As we look at changes in our budget process and systems, we will consider your suggestions to identify opportunities to simplify and streamline recording of transactions in the state's accounting system to reduce the need for adjustments in the financial reporting process.

Person Responsible: Barb Ruckheim, Financial Reporting Director

Estimated Completion Date: December 31, 2006

Minnesota Office of the Legislative Auditor
Schedule of Findings and Questioned Costs
Section II: Financial Statement Audit Findings - Continued

Report 06-11

State Agency: Minnesota Department of Finance

Finding 06-11-2 *Improper accounting for local government reimbursements of construction costs.*

- 2. The departments of Transportation and Finance did not properly account for reimbursements of construction costs received from local units of government in the state's financial statements.**

The departments of Transportation (MnDOT) and Finance did not reduce the infrastructure balance in the state's financial statements for the reimbursements MnDOT received from other governments for jointly-funded construction projects. As a result, MnDOT and the Department of Finance overstated the infrastructure asset balance in the state's preliminary financial statements by \$62.3 million: \$37.8 million for reimbursements in prior years and \$24.5 million for reimbursements in fiscal year 2005.

Periodically, MnDOT agrees to manage and pay for the entire construction project costs involving work done for both the state and other governmental entities. For example, MnDOT may manage all aspects of a construction project involving the intersection of a state trunk highway and a county road, including improvements to the county road. In these circumstances, the local governments agree to reimburse MnDOT for the local government's share of the project costs. According to generally accepted accounting principles, the state should only report as assets those construction costs that apply to the infrastructure assets it owns.

Recommendation

- *The departments of Transportation and Finance should work together to accurately report the infrastructure balance in the state's financial statements by reducing the balance for reimbursements received for jointly-funded construction projects.*

Minnesota Department of Finance Response:

We will continue to work with the Department of Transportation to ensure the amounts reported to us for inclusion in the state's financial statements accurately reflect only the state's portion of infrastructure.

Person Responsible: Barb Ruckheim, Financial Reporting Director

Estimated Completion Date: October 31, 2006

Minnesota Office of the Legislative Auditor
Schedule of Findings and Questioned Costs
Section II: Financial Statement Audit Findings - Continued

Report 06-11

State Agency: Minnesota Department of Finance

Finding 06-11-3 *Incompatible employee access to the state's accounting system.*

3. The Department of Finance gave several employees incompatible access to the state's accounting system.

The Department of Finance had seven employees with broad clearances to the state's main accounting system. These individuals have the ability to update vendor payment files, encumber funds, and process payments. In addition, these users had clearance to update the financial data for all state agencies. Generally, the functions of maintaining vendor data, encumbering funds, and making payments should be segregated to provide an appropriate level of control over expenditures. The risks of errors and improprieties increases when employees have access to incompatible functions in the accounting system.

If restricting these employees' access is not feasible, the department should establish mitigating controls to detect possible errors or irregularities. According to the department's security policy:¹ "Agencies requesting security profiles with incompatible functions should develop and adhere to a written plan which contains a description of the independent reviews to be performed." However, the department did not have the required plan addressing these seven employees' incompatible clearances. Independent reviews could be an effective control to address the level of clearance provided to these employees.

Recommendation

- *The Department of Finance should eliminate incompatible access to the accounting system, or develop and follow a written plan to mitigate the lack of control regarding incompatible access.*

Minnesota Department of Finance Response:

We have determined that eliminating the incompatible functions is preferable to implementing mitigating controls. The system access to process payments has been removed for the seven employees.

Person Responsible: Ron Mavetz, Agency Support Director

Estimated Completion Date: Completed

¹ MAPS Security and Access Policy #1101-07

Minnesota Office of the Legislative Auditor
Schedule of Findings and Questioned Costs
Section II: Financial Statement Audit Findings - Continued

Report 06-12

State Agency: Minnesota Department of Transportation

Finding 06-12-1 *Improper accounting for local government reimbursements of construction costs.*

1. The Departments of Transportation and Finance did not ensure the accuracy of the infrastructure balance in the state's financial statements.

The Departments of Transportation (MnDOT) and Finance did not reduce the infrastructure balance on the state's preliminary financial statements for the reimbursements MnDOT received from other governments. Periodically, MnDOT agrees to manage and pay for entire construction projects involving work done for both the state and other governmental entities. For example, MnDOT may manage all aspects of a construction project involving the intersection of a state trunk highway and a county road, including improvements to the county road. In these circumstances, the local governments agree to reimburse MnDOT for the local government's share of the project costs. MnDOT and the Department of Finance did not reduce the state's infrastructure balance for these types of reimbursement costs.

According to the generally accepted accounting principles, governments should typically include only those constructions costs that apply to the infrastructure assets the government owns. MnDOT and the Department of Finance overstated the infrastructure asset balance in the state's preliminary financial statements by \$62.3 million: \$24.5 million for reimbursements received in fiscal year 2005 and \$37.8 million for prior years.

Recommendation

- *The Departments of Transportation and Finance should work together to accurately report the infrastructure balance in the state's CAFR by reducing the balance for reimbursements received for joint construction projects.*

Minnesota Department of Transportation Response:

Response: MnDOT has worked with the Department of Finance to resolve this issue. In the future MnDOT will adjust the infrastructure costs for reimbursements from local units of government for project costs on infrastructure owned by local governments.

Person Responsible: Kevin Gray, Finance and Administration Division Director

Estimated Completion Date: January 2006

MINNESOTA OFFICE OF THE LEGISLATIVE AUDITOR
STATEWIDE SINGLE AUDIT
SECTION III
SCHEDULE OF FEDERAL PROGRAM AUDIT FINDINGS
FISCAL YEAR ENDED JUNE 30, 2005

CFDA NO.	PROGRAM NAME	STATE AGENCY	RPT NO.	FIND NO.	INT CONT.	COMP REQ.	PROBLEM	FIN IMPACT
U.S. Department of Agriculture								
10.551	Food Stamps	Human Services - Hennepin County	06-10	H-1	R	E	No monitoring of FIAT override transactions.	P
10.551	Food Stamps	Human Services - Ramsey County	06-10	R-1	R	E	No monitoring of FIAT override transactions.	P
10.551	Food Stamps	Human Services - Saint Louis County	06-10	S-1	R	E	No monitoring of FIAT override transactions.	P
10.557	Special Nutrition for Women, Infants & Children	Health	06-07	1	R	B	Salary Allocations not sufficiently documented.	NQ
U.S. Department of Housing and Urban Development								
14.228	Community Development Block Grant-States	Employment & Economic Development	06-09	3	R	L/M	Inconsistent monitoring and reporting of project expenditures.	P
U.S. Department of Labor								
17.225	Unemployment Insurance	Employment & Economic Development	06-09	2	R	L	Failure to submit or document required federal financial reports.	P
U.S. Department of Transportation								
20.108	Airport Improvement Program	Transportation	06-12	3	R	A	Material testing requirements were not met.	\$151,000
20.205	Highway Planning & Construction	Transportation	06-12	2	R	A, B	Project oversight procedures need improvement.	\$12,568,300
20.205	Highway Planning & Construction	Transportation	06-12	4	R		Failure to reconcile project status reports to billings.	P
U.S. Department of Education								
84.033	Federal Work Study	Metropolitan State University	KDV-05	8		G	University did not earmark correct funds for community service workers.	\$4,944
84.063	Federal Pell Grant	State Colleges & Universities (MnSCU)	KDV-05	4		L	Certain institutions did not timely report grant disbursements.	P
Various	Financial Aid Cluster	State Colleges & Universities (MnSCU)	KDV-05	1		E	Need to clarify satisfactory academic progress policies.	P
Various	Financial Aid Cluster	Rochester C&TC	KDV-05	2		E	Inadequate monitoring of satisfactory academic progress.	\$8,350
Various	Financial Aid Cluster	State Colleges & Universities (MnSCU)	KDV-05	3		N	Some institutions did not timely report changes in student status.	P
Various	Financial Aid Cluster	State Colleges & Universities (MnSCU)	KDV-05	5		N	Lack of policies for verifying applicant information.	\$117,289
Various	Financial Aid Cluster	State Colleges & Universities (MnSCU)	KDV-05	6		N	Title IV funds to be returned were not correctly calculated or returned.	\$10,465
Various	Financial Aid Cluster	State Colleges & Universities (MnSCU)	KDV-05	7		E	Student awards exceeded program limits.	P
Various	Financial Aid Cluster	State Colleges & Universities (MnSCU)	KDV-05	9		E	Excessive security rights to the financial aid system.	P
Various	Financial Aid Cluster	Ridgewater College	KDV-05	10		H, L	Incorrect drawdown of federal funds/not recording loan cancellations.	P
Various	Financial Aid Cluster	Metropolitan State University	KDV-05	10		L	Grant activity not reconciled to general ledger.	NQ
Various	Financial Aid Cluster	Winona State University	KDV-05	11		L	Failure to timely report administrative changes to Dept. of Education.	P
84.126	Vocational Rehabilitation	Employment & Economic Development	06-09	4	R	M	Subrecipient financial reports not filed quarterly with the department.	P
U. S. Election Assistance Commission								
90.401	Help America Vote Act	Secretary of State	05-40	3	R	B	Salary allocations not accurately made.	NQ
90.401	Help America Vote Act	Secretary of State	05-40	4	R	L	Financial status report not accurate.	P
90.401	Help America Vote Act	Secretary of State	05-40	5	R	I	Lack of contractor suspension and debarment verification.	P

MINNESOTA OFFICE OF THE LEGISLATIVE AUDITOR
STATEWIDE SINGLE AUDIT
SECTION III
SCHEDULE OF FEDERAL PROGRAM AUDIT FINDINGS
FISCAL YEAR ENDED JUNE 30, 2005

CFDA NO.	PROGRAM NAME	STATE AGENCY	RPT NO.	FIND NO.	INT CONT	COMP REQ	PROBLEM	FIN IMPACT
U.S. Department of Health & Human Services								
93.044	Support Services and Senior Centers	Human Services	06-10	7	R	L	Inaccurate quarterly SF-269 reporting.	P
93.045	Aging Nutrition Services	Human Services	06-10	7	R	L	Inaccurate quarterly SF-269 reporting.	P
93.283	CDC - Investigations and Technical Assistance	Health	06-07	1	R	B	Salary Allocations not sufficiently documented.	NQ
93.283	CDC - Investigations and Technical Assistance	Health	06-07	3	R	C	Excessive federal cash draws.	P
93.283	CDC - Investigations and Technical Assistance	Health	06-07	5	R	F	Inadequate management of fixed assets.	P
93.558	Temporary Assistance for Needy Families	Human Services - Hennepin County	06-10	H-1	M	E	No monitoring of FIAT override transactions.	P
93.558	Temporary Assistance for Needy Families	Human Services - Hennepin County	06-10	H-2	M	E, N	Unlimely resolution of discrepancies identified by IEVS.	NQ
93.558	Temporary Assistance for Needy Families	Human Services - Ramsey County	06-10	R-1	M	E	No monitoring of FIAT override transactions.	P
93.558	Temporary Assistance for Needy Families	Human Services - Ramsey County	06-10	R-2	M	E, N	Unlimely resolution of discrepancies identified by IEVS.	NQ
93.558	Temporary Assistance for Needy Families	Human Services - Saint Louis County	06-10	S-1	M	E	No monitoring of FIAT override transactions.	P
93.568	Low Income Home Energy Assistance	Commerce	06-06	1	R	E	Inadequate documentation supporting recipient eligibility testing.	P
93.568	Low Income Home Energy Assistance	Commerce	06-06	2	R	E	Federal program numbers not identified in accounting system.	P
93.659	Adoption Assistance	Human Services	06-10	2	R	E	Inadequate eligibility documentation.	P
93.767	State Children's Health Insurance Program	Human Services	06-10	2	R	E	Inadequate eligibility documentation.	P
93.767	State Children's Health Insurance Program	Human Services - Hennepin County	06-10	H-1	M	E	No monitoring of FIAT override transactions.	P
93.767	State Children's Health Insurance Program	Human Services - Ramsey County	06-10	R-1	M	E	No monitoring of FIAT override transactions.	P
93.767	State Children's Health Insurance Program	Human Services - Saint Louis County	06-10	S-1	M	E	No monitoring of FIAT override transactions.	P
93.778	Medical Assistance	Human Services	06-10	1	R	B	Inadequate verification of drug rebate amounts.	NQ
93.778	Medical Assistance	Human Services	06-10	5	R	B	Inadequate controls over indirect cost allocation.	NQ
93.778	Medical Assistance	Human Services - Hennepin County	06-10	H-1	M	E	No monitoring of FIAT override transactions.	P
93.778	Medical Assistance	Human Services - Hennepin County	06-10	H-2	M	E, N	Unlimely resolution of discrepancies identified by IEVS.	NQ
93.778	Medical Assistance	Human Services - Ramsey County	06-10	R-1	M	E	No monitoring of FIAT override transactions.	P
93.778	Medical Assistance	Human Services - Ramsey County	06-10	R-2	M	E, N	Unlimely resolution of discrepancies identified by IEVS.	NQ
93.778	Medical Assistance	Human Services - Saint Louis County	06-10	S-1	M	E	No monitoring of FIAT override transactions.	P
U. S. Department of Homeland Security								
97.004	State Domestic Preparedness Equipment	Public Safety	06-08	1	R	A	Sales taxes inappropriately charged to program.	\$10,000

Notes:

This summary schedule highlights federal program audit findings presented in the Minnesota Office of the Legislative Auditor's reports to the affected state agencies. The "RPT NO" are the report numbers in the format 0X-XX, which refer to individual agency reports; and the "FIND NO" are finding numbers within those reports. The finding identifies whether the internal control (INT CONT) is a Material (M) weakness or a Reportable (R) condition and or compliance (COMP REQ) requirement addressed (A-N). These reports may be accessed at www.auditor.leg.state.mn.us.

Kern-DeWenter-Viera (KDV) audited the Minnesota State Colleges and Universities financial statements and their federal financial aid cluster. The "RPT NO" for KDV federal program findings are reported in KDV-05; and the "FIND NO" are finding numbers within KDV's report.

State of Minnesota
Financial and Compliance Report on Federally Assisted Programs
Fiscal Year Ended June 30, 2005

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Federal Program Audit Findings

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Report 05-40

State Agency: Minnesota Office of the Secretary of State

Federal Agency: U. S. Election Assistance Commission

CFDA Number/Program Name:

90.401 Help America Vote Act (HAVA)

Questioned Costs: Nonquantifiable

Finding 05-40-3 Salary allocations not accurately made.

3. The Office of the Secretary of State did not have a process to ensure an accurate allocation of payroll expenses charged to the HAVA grant.

The Office of the Secretary of State did not allocate fringe benefits consistently for employees directly and indirectly charged to the HAVA program. In addition, the office did not correct other allocation errors pertaining to overtime charges and posting of actual hours worked. The office designed a labor distribution spreadsheet to meet federal requirements governing payroll allocation. The labor distribution spreadsheet captured both estimated and actual hours worked by employees charged to the HAVA program. We identified various allocation errors totaling \$114,000. The net affect of the errors was that the General Fund owed the HAVA account \$30,177.

Currently, the office does not produce or review monthly allocation summaries that would help identify posting errors. Office of Management and Budget (OMB) Circular A-87, *Cost Principles for State Governments*, requires that the allocation system provide periodic reports to identify and adjust estimated versus actual amount variances. The office explained that the allocation system, which began recording charges on July 1, 2003, was not fully operational. Periodic reports could provide management with the opportunity to detect posting errors and inconsistencies in hours reported for overtime and other fringe benefits.

Recommendation

- *The office should generate periodic payroll summaries and promptly correct identified allocation errors.*

Minnesota Office of the Legislative Auditor
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Section III: Federal Program Audit Findings – Continued

Minnesota Office of the Secretary of State Response:

Payroll tracking for the HAVA program was the concern in Finding 3. The Office monitored payroll reconciliation reports to detect or correct errors. The reconciliation process was planned for the end of the biennium, which was after the audit period.

Fiscal staff have been directed to generate reports that reflect the auditor's allocation coding preferences.

Person Responsible: Kathy Hjelm

Estimated Completion Date: June 30, 2005

Minnesota Office of the Legislative Auditor
Schedule of Findings and Questioned Costs
Section III: Federal Program Audit Findings – Continued

Report 05-40

State Agency: Minnesota Office of the Secretary of State

Federal Agency: U. S. Election Assistance Commission

CFDA Number/Program Name:

90.401 Help America Vote Act (HAVA)

Questioned Costs: None – Procedural Finding Only

Finding 05-40-4 Financial status report not accurate.

4. The office's cash management practices for the Election Assistance for Individuals with Disabilities (EAID) grant did not maximize the state's use of federal funds.

As part of the HAVA program, the office received a separate \$202,382 grant for improving access to and participation by individuals with disabilities in the election process. The office awarded approximately \$190,000 to 126 local units of government to improve polling place accessibility. The awards ranged from \$90 to \$3,500.

The office did not draw down the federal funds in a timely manner. The office began disbursing the grants to local units of government in July 2004. As of April 26, 2005, the office had disbursed about \$170,000 of the grant award, but had not requested any reimbursement from the federal government. Instead, the office used Title 1 HAVA moneys to fund these costs. The office should have requested the federal EAID reimbursements as it made disbursements, in order to maximize investment income on accumulated balances.

In addition, the office did not accurately report its financial activity for this program to the federal government. The federal government's A-133 Compliance Supplement, Letter L, requires each recipient to report disbursement activity as prescribed by the awarding federal agency. The office submitted its financial status report, dated November 17, 2004, to the federal government for the period September 1, 2003, through August 31, 2004. Although the office had disbursed about \$9,400, it did not show this on the financial status report.

Recommendations

- *The Office of the Secretary of State should draw down the federal share of its EAID grant expenditures as incurred to minimize the use of Title 1 funds.*

Minnesota Office of the Legislative Auditor
Schedule of Findings and Questioned Costs
Section III: Federal Program Audit Findings – Continued

- *The office should establish appropriate controls to ensure it submits accurate financial status reports to applicable federal agencies.*

Minnesota Office of the Secretary of State Response:

In the HHS grant project for polling place access discussed in Finding 4, the Office allocated EAID funds in such a way to maximize benefits to the public, through local government and to improve polling place accessibility as broadly as possible. Over \$170,000 in project funding was sent to local government and all of the administrative costs for the polling place accessibility project were absorbed by the Title I fund money. Following the auditor's recommendation would have resulted in less money being available to local governments and for polling place improvements and that money being delayed in disbursement. It should also be noted that premature draw-down results in the payment of interest to the Federal government.

There were no state funds used in the grant process. All HAVA activities in fiscal years 2003 and 2004 only use Federal funds. The EAID grant funds will be deposited in and will augment the other Federal funds in the HAVA Account as required by Laws 2003, First Special Session, chapter 7, and they are unavailable for direct expenditure by the Office or subrecipients.

Person Responsible: Kathy Hjelm

Estimated Completion Date: July 31, 2005

Minnesota Office of the Legislative Auditor
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Report 05-40

State Agency: Minnesota Office of the Secretary of State

Federal Agency: U. S. Election Assistance Commission

CFDA Number/Program Name:

90.401 Help America Vote Act

Questioned Costs: None – Procedural Finding Only

Finding 05-40-5 *Lack of contractor suspension and debarment verification.*

5. The Office of the Secretary of State did not have a process to ensure that no federal funds were paid to suspended or debarred vendors.

The Office of the Secretary of State did not have a process to determine whether a potential vendor had been suspended or debarred by the federal government prior to obligating federal funds. Federal regulations prohibit states from using federal money to procure goods or services from vendors who are suspended or debarred. In addition, the federal government requires state agencies to ensure that subgrantees certify that they refrain from contracting with suspended or debarred vendors. The federal government suspends or debars vendors when it determines, or is informed, that the vendors have abused public trust or violated program provisions. The federal government has a process to identify suspended or debarred vendors, and requires states to prevent those vendors from receiving federal funds in the future. Without following proper certification or verification procedures, the department is liable for all disallowed costs resulting from any payments to suspended or debarred vendors.

Recommendations

- *The Office of the Secretary of State should establish procedures to ensure it does not pay suspended or debarred vendors.*
- *The office should include standard language relating to suspension and debarment in its subgrantee contracts.*

Minnesota Office of the Legislative Auditor
Schedule of Findings and Questioned Costs
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Minnesota Office of the Secretary of State Response:

Finally, with regard to the last finding (Finding 5), the Office of the Secretary of State did not contract with any vendor subject to suspension and debarment. The Office has now established a procedure to assure that the Federal suspension and debarment list is reviewed prior to contracting with any vendor when Federal funds are used.

Person Responsible: Kathy Hjelm

Estimated Completion Date: June 30, 2005

In addition, legal staff have been directed to include this suspension and debarment language as standard in all future contracts where Federal funds are used.

Persons Responsible: Bert Black
Katie Battle-Sayles

Estimated Completion Date: June 30, 2005

Minnesota Office of the Legislative Auditor
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Report 06-06

State Agency: Minnesota Department of Commerce

Federal Agency: U. S. Department of Health and Human Services

CFDA Number/Program Name:

93.568 Low Income Home Energy Assistance

Questioned Costs: None – Procedural Finding Only

Finding 06-06-1 *Inadequate documentation supporting recipient eligibility testing.*

- 1. The Department of Commerce did not sufficiently document its testing and verification of household eligibility for federal heating assistance.**

Department program staff verified eligibility determined by local service providers, however, they did not sufficiently document their testing. In October 2004, the department implemented a new computerized information system that efficiently streamlined payments to utility companies on behalf of eligible Low-Income Home Energy Assistance Program participants. Under the new system, each local service provider continues to determine which households are eligible, while the state Department of Commerce pays the federal aid directly to utility companies. In this situation, the federal government requires that the state agency and their auditors are responsible to verify and test eligibility. The department used their own program staff, along with the assistance of independent auditors of certain local service providers, to ensure compliance with federal eligibility requirements.

The department effectively communicated concerns in reports to service provider management and obtained corrective action plans for resolution. However, staff did not have a structured audit approach to guide quality and consistency of the department's eligibility work and inadequately documented sample selection methods, recipients examined, and attributes tested. The new computerized environment creates an opportunity for staff to more effectively oversee eligibility compliance by scrutinizing the underlying computer system data. Their reviews should also assess security controls, such as determining whether service provider access to the system's eligibility database is appropriate and sufficiently limited. Working papers should provide an audit trail of testing performed and support a conclusion on compliance by the service provider.

Minnesota Office of the Legislative Auditor
Schedule of Findings and Questioned Costs
Section III: Federal Program Audit Findings – Continued

Recommendation

- *The Department of Commerce should develop an audit approach with documentation standards to improve the quality of Low-Income Home Energy Assistance Program household eligibility verification.*

Minnesota Department of Commerce Response:

The Department of Commerce will comply with this recommendation.

As indicated in the audit report, the department implemented a new computerized information and financial data system - the Electronic Household Energy Automated Technology (eHEAT). The new computer system invoked the concept of "split eligibility" moving some of this responsibility from the local service provider to the department. In September 2005, the department issued guidance to the local service providers on eligibility determination. In addition to this guidance letter, the department has implemented various improvements to their audit approach to address this new responsibility. The department has updated its auditing guide tool used by department staff in reviewing the activities of these local service providers to deliver this service.

These improvements include:

- Significant documentation of testing methodologies, including key items, sampling and expanded testing.
- Improved documentation of interviews conducted with local service provider staff.
- Examining data security access controls to eHEAT used by the local service provider.
- Identifying conclusions based on the audit report.
- Determining the local service provider's compliance with federal and state eligibility requirements.
- Conducting independent or supervisory review of each audit performed.

Person Responsible: John Harvanko, Program Director

Estimated Completion Date: June 30, 2006

Minnesota Office of the Legislative Auditor
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Section III: Federal Program Audit Findings – Continued

Report 06-06

State Agency: Minnesota Department of Commerce

Federal Agency: U. S. Department of Health and Human Services

CFDA Number/Program Name:

93.568 Low Income Home Energy Assistance

Questioned Costs: None – Procedural Finding Only

Finding 06-06-2 *Federal program numbers not identified in accounting system.*

2. The Department of Commerce did not consistently identify federal program numbers for all of its federal accounts in the state's accounting system.

The department could not effectively use the accounting system to accumulate federal program expenditures by their respective Catalog of Federal Domestic Assistance (CFDA) identification number. They did not enter the federal catalog number into the accounting system for all federal accounts. As a result, department staff had to manually assign federal program numbers to \$24 million of federal expenditure activity for fiscal year 2005. The manual intervention caused the Low-Income Home Energy Assistance Program (CFDA #93.568) expenditures to be understated by \$102,508. Not having federal identification numbers in the accounting system increased the risk of incorrectly reporting program expenditures in the State of Minnesota's Financial and Compliance Report on Federally Assisted Programs.

Recommendation

- *The Department of Commerce should ensure that each federal account in the state's accounting system is properly identified with its corresponding federal program number.*

Minnesota Department of Commerce Response:

The Department of Commerce will comply with this recommendation. The department will fully utilize the grants module of MAPS to ensure the proper federal program numbers are recorded in the state's accounting system.

Person Responsible: Dennis Munkwitz, Chief Financial Officer

Estimated Completion Date: April 30, 2006

Minnesota Office of the Legislative Auditor
Schedule of Findings and Questioned Costs
Section III: Federal Program Audit Findings – Continued

Report 06-07

State Agency: Minnesota Department of Health

Federal Agencies: U. S. Department of Agriculture
U. S. Department of Health and Human Services

CFDA Numbers/Program Names:

10.557	Special Nutrition for Women, Infants and Children
93.283	CDC - Prevention, Investigations and Technical Assistance

Questioned Costs: Nonquantifiable

Finding 06-07-1 Salary allocations not sufficiently documented.

- 1. PRIOR FINDING NOT RESOLVED: The department did not comply with federal and state requirements for documenting time charged to programs, including the transfer of payroll costs between programs.**

The department did not adequately document the basis for payroll costs charged to the WIC (CFDA 10.557) and Centers for Disease Control (CDC) Technical Assistance (CFDA 93.283) programs. As a result, the department was unable to support that its allocation of payroll expenditures to the federal programs was proper. We first reported this issue in 2004.

Payroll charges to specific programs must be supported by evidence that the employees, in fact, worked on those programs. Federal regulations¹ identify standards for time distribution and payroll documentation for federal programs. They state that employees who work on multiple programs must have a salary distribution supported by personnel activity reports or equivalent documentation. This documentation must reflect the actual activity of each employee and account for the total activity for which each employee is compensated. In addition, where employees are expected to work solely on a single federal program, charges for their salaries must be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification.

The department used both payroll expense transfers and expenditure corrections on a regular basis to transfer payroll costs between state and federal programs. However, support for these transfers was often inadequate. The department had these specific instances of noncompliance relating to payroll funding documentation.

¹ U.S. Office of Management and Budget (OMB) Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*.

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- The department did not comply with federal requirements and department policy for documenting time charged to federal programs. Three of three payroll expense transfers we sampled for CDC were not supported by periodic certifications that the employees worked only on that federal program. Some employees work on either WIC or CDC, as well as on other programs. In five cases, the department did not have the required time studies to support the employees' hours charged to the CDC grant. In addition, in three other cases, time study documentation was not signed by employees and supervisors.
- The department did not comply with the Department of Finance's policy for payroll expense transfers. According to the policy, "The payroll transfer transaction is designed to correct a one-time funding problem. It is not to be used to correct a recurring problem." The department used transfers to retroactively move payroll costs between programs each year. Instead, to minimize the need for retroactive adjustments, the department should code all of its positions to the correct expense budgets at the beginning of each year.
- The department did not always document the reasons program staff requested employee payroll funding changes. Four of 15 requests for payroll expense transfers or corrections affecting the CDC programs did not provide sufficient detail about the need for the transfer. Sufficient documentation helps ensure that the transactions are consistent with state or federal requirements.

Routinely using expense transfers and payroll expense corrections weakens controls designed to ensure that the department funded payroll in accordance with actual work performed and makes it difficult to determine if employees' time is charged to the appropriate funding source. Inaccurate and undocumented payroll funding could result in unallowable costs, which could lead to repayments to the federal government.

Recommendation

- *The department should comply with federal and state requirements for charging payroll to specific programs by:*
 - establishing multiple funding sources for individual employees in the state's personnel/payroll system, as appropriate, to reduce the need for payroll expense transfers;*
 - certifying employees charged to a single federal program;*
 - performing and documenting time studies when required; and*
 - documenting the reason for transfers of payroll charges between funding sources and how the transfer is consistent with state or federal requirements.*

Minnesota Office of the Legislative Auditor
Schedule of Findings and Questioned Costs
Section III: Federal Program Audit Findings – Continued

Minnesota Department of Health Response:

The department concurs with this recommendation as it relates to conducting time studies and the certifying of employees charged to a single federal program, but disagrees with that portion of the recommendation related to the method of transferring costs between cost centers.

The department recognizes that a few of the programs at the time of the audit were not conducting time studies, but this has been corrected as of the last quarter of calendar 2005. The department is also working very hard to assure that certifications are prepared on a timely basis, and will continue to work to determine how to monitor and follow-up.

Finally, the department will work with the Department of Finance to address the need to transfer costs from one cost center to another when there are numerous employees for several pay periods. The current method of pay period adjustments is not an efficient use of scarce human resources.

Person Responsible: David Hovet, Director, Finance and Facilities Management

Estimated Completion Date: Ongoing

Minnesota Office of the Legislative Auditor
Schedule of Findings and Questioned Costs
Section III: Federal Program Audit Findings – Continued

Report 06-07

State Agency: Minnesota Department of Health

Federal Agency: U. S. Department of Health and Human Services

CFDA Number/Program Name:

93.283 CDC - Prevention, Investigations and Technical Assistance

Questioned Costs: None – Procedural Finding Only

Finding 06-07-3 *Excessive federal cash draw downs.*

3. The Department of Health did not comply with federal provisions for cash management in certain instances.

The department drew federal funds that exceeded federal cash management requirements. Each week, the department requests cash from the federal government to reimburse the department for actual expenditures incurred. Federal regulations require states to minimize the time between the drawdown of federal funds and their disbursement for program purposes.

- In November 2004, the department requested \$1,871,000 for the CDC Bioterrorism Preparedness Grant (CFDA 93.283) twice. It had moved expenditures between two appropriation accounts within the state's accounting system for the grant. The department then drew funds to cover the transferred expenditures. However, the department had already received reimbursement from the federal government for these expenditures. To correct this, the department reduced future reimbursement requests. The excess cash resulting from the duplicate draws was not completely resolved until December 2004.
- In June 2005, the department overdrew approximately \$679,000 of CDC Bioterrorism Preparedness funds due to errors in the calculation of draw requests. The department corrected these overdrafts through reductions to subsequent requests.

Recommendation

- *The department should ensure that draw requests are accurate and comply with federal requirements for minimizing the time elapsing.*

Minnesota Office of the Legislative Auditor
Schedule of Findings and Questioned Costs
Section III: Federal Program Audit Findings – Continued

Minnesota Department of Health Response:

The department concurs with this recommendation. The department will increase oversight of the draw.

Person Responsible: David Hovet, Director, Finance and Facilities Management

Estimated Completion Date: Ongoing

Minnesota Office of the Legislative Auditor
Schedule of Findings and Questioned Costs
Section III: Federal Program Audit Findings – Continued

Report 06-07

State Agency: Minnesota Department of Health

Federal Agency: U. S. Department of Health and Human Services

CFDA Number/Program Name:

93.283 CDC - Prevention, Investigations and Technical Assistance

Questioned Costs: None – Procedural Finding Only

Finding 06-07-5 *Inadequate management of fixed assets.*

5. PRIOR FINDING PARTIALLY RESOLVED: The Department of Health did not conduct a physical inventory of fixed assets acquired by federal grant funding.

The department had not performed a physical inventory of fixed assets for many years. According to federal regulations, the department should account for the equipment acquired under federal grants in accordance with state fixed asset procedures. Although the department has improved its recording of fixed assets, it has not yet conducted a complete physical inventory to verify the existence and location of its equipment. The Department of Administration's policy² requires complete physical inventories of fixed assets and sensitive items at least biennially. In fiscal year 2005, the department purchased approximately \$620,000 for laboratory equipment acquired by funding from CDC grants (CFDA 93.283).

Recommendation

- *The department should conduct a physical inventory of fixed assets in compliance with federal and state requirements.*

Minnesota Department of Health Response:

The department concurs with this recommendation. The department will work on conducting a physical inventory over the next few months.

Person Responsible: David Hovet, Director, Finance and Facilities Management

Estimated Completion Date: Ongoing

² The Department of Administration's Property Management Reporting and Accountability Policy issued October 9, 2003.

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Report 06-08

State Agency: Minnesota Department of Public Safety

Federal Agency: U. S. Department of Homeland Security

CFDA Number/Program Name:

97.004 State Domestic Preparedness Equipment Support Program

Questioned Costs: \$10,000

Finding 06-08-1 *Sales taxes inappropriately charged to program.*

- 1. The Department of Public Safety incurred unallowable costs totaling \$10,000 for sales taxes it paid on certain purchases.**

The Department of Public Safety incurred unallowable costs of \$10,000 for the State Domestic Preparedness Equipment Program (CFDA #97.004) for state sales tax it erroneously paid. The department purchased two decontamination trailers on behalf of two volunteer fire departments and paid sales tax on those purchases. However, *Minnesota Statutes 272.021* exempts volunteer fire departments from paying sales tax on these purchases. Therefore, because the department purchased these items on behalf of the fire departments, it should not have paid sales tax on them either. Although sales tax is an allowable cost for federal programs, it is not allowable on these purchases because the state exempts sales tax collections on these items.

Recommendations

- *The Department of Public Safety should reimburse the federal government \$10,000 it claimed for unallowable state sales tax.*
- *The Department of Public Safety should ensure that it only pays sales tax on allowable purchases.*

Minnesota Department of Public Safety Response:

At the time of discovery of the erroneous sales tax payment a request was submitted to the Department of Finance for a sales tax refund. Unfortunately this sales tax refund was not processed by the end of the audit fieldwork. The refund of the unallowable sales tax has since been made and we are able to reimburse the federal government. As this grant has since been extended to March 31, 2006, the sales tax refund has been deducted from federal reimbursements since the end of the fieldwork.

Minnesota Office of the Legislative Auditor
Schedule of Findings and Questioned Costs
Section III: Federal Program Audit Findings – Continued

The original purchaser into the Minnesota Accounting and Procurement System (MAPS) is now aware of their erroneous purchase entry. This awareness should ensure that the Department of Public Safety only pays sales tax on allowable purchases.

Person Responsible: Daniel E. Boytim, Office of Fiscal and Administrative Services

Estimated Completion Date: Completed and ongoing

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Report 06-09

State Agency: Minnesota Department of Employment and Economic Development

Federal Agency: U. S. Department of Labor

CFDA Number/Program Name:

17.225 Unemployment Insurance Program

Questioned Costs: None – Procedural Finding Only

Finding 06-09-2 *Failure to submit or document required federal financial reports.*

- 2. DEED did not submit a required quarterly unemployment insurance financial activity report to the federal government and could not locate documentation supporting a separate report.**

The department did not file required unemployment insurance (CFDA #17.225) federal financial reports for the quarters ending June 30, September 30, and December 31 of 2005. The federal Employment Training Act Report on Contribution Operations (ETA 581) was properly filed in previous quarters; however, since implementing its new unemployment insurance tax system in June 2005, the department encountered difficulties developing accurate financial activity information for the report.

In addition, DEED did not retain documentation supporting its 2004 federal unemployment tax (FUTA) report filed January 2005. The FUTA report certifies the department's comparison of employer unemployment tax payments to credits claimed by employers on their IRS 940 FUTA tax form. The federal government requires auditors of unemployment insurance to verify the procedures and tests performed to support the comparison. The department provided documentation showing that they ran the computer program; however, they could not find evidence supporting their tests of the computerized comparison. As a result, we were unable to determine the department's compliance in certifying FUTA tax credits. Record retention policies require the department to retain this documentation for a minimum of three years or until audited.

Recommendations

- *DEED should comply with unemployment insurance federal reporting requirements by developing system reports that facilitate accurate and timely federal reporting.*

Minnesota Office of the Legislative Auditor
Schedule of Findings and Questioned Costs
Section III: Federal Program Audit Findings – Continued

- *The department should retain documentation supporting its testing of the FUTA certification report for a minimum of three years or until audited.*

Minnesota Department of Employment and Economic Development Response:

We agree. DEED has now submitted all required reports and will properly retain all supporting documentation.

Person Responsible: Kathy Nelson

Estimated Completion Date: Completed and ongoing

Minnesota Office of the Legislative Auditor
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Section III: Federal Program Audit Findings – Continued

Report 06-09

State Agency: Minnesota Department of Employment and Economic Development

Federal Agency: U. S. Department of Housing and Urban Development

CFDA Number/Program Name:

14.228 Community Development Block Grant - States

Questioned Costs: None – Procedural Finding Only

Finding 06-09-3 *Inconsistent monitoring and reporting of project expenditures.*

3. The department did not consistently monitor and report project expenditures for the federal Community Development Block Grant Program (CFDA #14.228).

The Community Development Block Grant Program provides federal grants to small cities for housing and economic improvement projects. Under federal authority, the state has issued rules to govern grant application, awarding, and monitoring. The department employed ‘program monitors’ to monitor project progress and verify that cities comply with federal grant requirements. However, program monitors did not consistently authorize reimbursement of project payments nor obtain and review independent audits of funded projects. In addition, the department filed a key federal financial report late and incorrectly included project expenditures made after the reporting period. Without consistent monitoring, authorizing, and reporting practices, ineligible project costs and noncompliance with federal regulations could occur without detection.

The department encountered the following problems with the block grant program:

- The department requires two signatures to authorize draw requests for federal reimbursement of block grant project costs. However, for 2 of 11 draw requests tested, the department received federal funds and reimbursed project costs without obtaining two authorizations. Supervisory approvals were made, but signatures from program monitors that review projects for compliance with program requirements were missing.
- The department did not fulfill its oversight responsibility ensuring that independent audits were conducted. Program monitors did not obtain audit reports for 6 of 11 subrecipients receiving over \$500,000 per year, as required by federal guidelines. The department did not have evidence that one subrecipient had a qualifying federal audit, and five did not submit an audit report to the department until requested during our review. In fact, one

Minnesota Office of the Legislative Auditor
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audit raised some concerns that should have been investigated and resolved by program monitors.

- The department submitted the program evaluation review report over 60 days late to the federal Housing and Urban Development Agency. The report for the period ending September 30, 2004, was due on December 31, 2004; however, it was not submitted until March 2005. In addition, the report incorrectly included at least \$1.7 million of expenditures paid from October 2004 through March 2005. The department should have included these subsequent expenditures in the next federal reporting period.

Recommendation

- *The department should improve the federal Community Development Block Grant Program's compliance by:*
 - *obtaining two authorizations before requesting federal funds for project reimbursement;*
 - *ensuring subrecipient audit requirements are met, and any audit issues are adequately monitored and resolved; and*
 - *submitting a timely and accurate federal program evaluation review report.*

Minnesota Department of Employment and Economic Development Response:

We agree. DEED will use only the form that requires both the monitor's and supervisor's signatures for reimbursement requests.

DEED has received the required qualifying federal audit reports from the subrecipients cited in the report. DEED will ensure that subrecipient's audits meet standards and the audits are reviewed and resolved.

DEED submitted the program evaluation review report after the due date and included expenditures after the reporting period. HUD has accepted this report without exceptions. We will submit future reports in a timely manner.

Person Responsible: Paul A. Moe

Estimated Completion Date: Completed and ongoing

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Section III: Federal Program Audit Findings – Continued

Report 06-09

State Agency: Minnesota Department of Employment and Economic Development

Federal Agency: U. S. Department of Education

CFDA Number/Program Name:

84.126 Rehabilitation Services – Vocational Rehabilitation Grants

Questioned Costs: None – Procedural Finding Only

Finding 06-09-4 *Subrecipient financial reports not sent quarterly to department.*

4. DEED did not ensure that all organizations submitted quarterly financial reports for the federal Vocational Rehabilitation Program.

The department did not receive quarterly financial status reports from all organizations receiving vocational rehabilitation (CFDA #84.126) program funding. These reports are due 30 days after the end of each reporting quarter, as specified in their grant agreements. The department uses these reports to monitor cash advances and record program expenditures, and they ultimately become the basis for the department's vocational rehabilitation program expenditures reported to the federal government. However, three of nine organizations tested continued to receive cash advances during fiscal year 2005 even though they did not file quarterly financial status reports with DEED. For these organizations, DEED's accounting system reflected the cash advances as unpaid obligations until they reported actual expenditures at year-end.

Federal regulations require the department to monitor cash management and spending by organizations receiving federal funds. To enforce these provisions, the department has the authority to discontinue or delay federal program funding until requested reports are filed. The inability of these organizations to file these financial status reports increases the risk of excessive cash balances or inappropriate program expenditures. In addition, weaknesses in entity financial management could compromise their ability to deliver an appropriate level of service to eligible recipients.

Recommendation

- *The department should ensure that all organizations receiving federal vocational rehabilitation funds submit quarterly financial status reports. It should evaluate the financial reliability of organizations unable to meet the quarterly reporting requirement specified in their grant agreement.*

Minnesota Office of the Legislative Auditor
Schedule of Findings and Questioned Costs
Section III: Federal Program Audit Findings – Continued

Minnesota Department of Employment and Economic Development Response:

We agree. DEED will monitor subrecipients to ensure that financial status reports are timely.

Person Responsible: Kim Peck

Estimated Completion Date: Completed and ongoing

Minnesota Office of the Legislative Auditor
Schedule of Findings and Questioned Costs
Section III: Federal Program Audit Findings – Continued

Report 06-10

State Agency: Minnesota Department of Human Services

Federal Agency: U. S. Department of Health and Human Services

CFDA Number/Program Name:

93.778 Medical Assistance

Questioned Costs: Nonquantifiable

Finding 06-10-1 *Inadequate verification of drug rebate amounts.*

- 1. The Department of Human Services did not have a process to verify that it received accurate supplemental drug rebates.**

The department did not have an adequate process to ensure that a third-party processor sent the appropriate supplemental drug rebate amounts to the state. During fiscal year 2005, the department received over \$5 million in supplemental drug rebates from the processor. The department expects this amount to increase in the future. The Supplemental Drug Rebate Program is part of the Medical Assistance Program (CFDA 93.778), and rebates are split between the federal and state governments.

On behalf of several states, a third-party processor negotiated with pharmaceutical companies to determine the unit drug rebate amounts and collect the rebates. However, the department was unable to verify the accuracy of amounts it received because the processor considered the unit rebate amounts to be proprietary information and refused to share it with the department. The department did not implement any alternative procedures, such as requiring an audit of the processor, to gain assurance about the accuracy of the rebates received. Without verification procedures or reliance on an audit of the processor, the department is unable to ensure it received the correct rebate amounts.

Recommendation

- *The department should ensure the accuracy of the supplemental drug rebates determined by a third-party processor by verifying the units dispensed to the state's medical assistance payment system and recalculating rebate amounts, or by requesting an audit of the processor.*

Minnesota Office of the Legislative Auditor
Schedule of Findings and Questioned Costs
Section III: Federal Program Audit Findings – Continued

Minnesota Department of Human Services Response:

The department agrees with the recommendation. The department is in the process of finalizing language on an amendment to the contract with the processor. This amendment requires an independent SAS 70 audit be done annually on the procedures and processes that the third party processor uses to calculate and allocate supplemental rebates on the behalf of Minnesota.

Person Responsible: Jarvis Jackson

Estimated Completion Date: Current language has the audit completed no later than June 1st of each year with a draft copy of the report available to the State within 20 working days after completion of the fieldwork.

Minnesota Office of the Legislative Auditor
Schedule of Findings and Questioned Costs
Section III: Federal Program Audit Findings – Continued

Report 06-10

State Agency: Minnesota Department of Human Services

Federal Agency: U. S. Department of Health and Human Services

CFDA Numbers/Program Names:

93.659	Adoption Assistance
93.767	State Children's Health Insurance Program

Questioned Costs: None – Procedural Finding Only

Finding 06-10-2 *Inadequate eligibility documentation.*

2. The Department of Human Services did not adequately document certain eligibility criteria for two federal programs.

The department was missing certain key documentation to support recipient eligibility determinations for two federal programs, the Adoption Assistance Program (CFDA 93.659) and the State Children's Health Insurance Program (CFDA 93.767). It is important for the department to maintain complete documentation to show that eligibility determinations were correct.

The department did not have adequate documentation to support its review of eligibility determinations for the Adoption Assistance Program. If a child meets four specific criteria, the child's family is eligible to receive adoption assistance maintenance subsidies. The eligibility determinations originate with child placing agencies. The department requires the agencies to send in documentation supporting their eligibility determinations. The department then reviews the documentation and verifies the agencies' determinations. The department's eligibility files were incomplete for 26 of the 58 sample items tested. Ultimately, the department was able to obtain copies of the missing documentation for all sample items except one.

In one case, the department was missing documentation to support an eligibility determination for the State Children's Health Insurance Program. Also, as reported in our prior audit, the department had documentation weaknesses relating to worker case notes in the department's eligibility and payment system. Although case note documentation had improved, there were still instances where the eligibility and payment system did not show all amounts entered nor identify the person who entered the data. In some cases, the system stored only the most recent data but no historical data.

Minnesota Office of the Legislative Auditor
Schedule of Findings and Questioned Costs
Section III: Federal Program Audit Findings – Continued

Recommendations

- *The department should collect and maintain all documentation necessary to support its verification of the adoption assistance eligibility determinations.*
- *The department should improve its documentation of eligibility decisions for the State Children's Health Insurance Program.*

Minnesota Department of Human Services Response:

The department agrees with the recommendation. The department has revised the forms certifying agencies use to complete eligibility determinations for adoption assistance. The revised forms ensure that the appropriate supporting information for the eligibility determination is submitted by the certifying agency and maintained by the department. Distribution of the forms will occur in May 2006 and corresponding training will be provided by the department to all agencies responsible for completing adoption assistance eligibility determinations. Before the department approves adoption assistance for a child, department staff reviewing the eligibility paperwork will ensure that all necessary documentation has been collected from the certifying agency. All documents that verify adoption assistance eligibility will be retained in the departmental adoption assistance case record.

Person Responsible: Erin Sullivan Sutton

Estimated Completion Date: June 1, 2006

The department agrees with the recommendation. Several measures planned or in process of completion will address this recommendation:

- The Health Care Application is being revised to encourage applicants to furnish verifications of eligibility with their submitted application forms.
- The Health Care Programs Manual is being revised to improve ease of use and clarity, and will be a web-based tool for workers. This will roll out over the next year.
- Implementation of the HealthMatch automated eligibility system scheduled to start in 2007 will lead to greater documentation of eligibility decisions, as more information will be entered by workers as they process eligibility. HealthMatch is scheduled to be fully implemented by May 2008.

Person Responsible: Kathleen Henry

Estimated Completion Date: May 2008

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Section III: Federal Program Audit Findings – Continued

Report 06-10

State Agency: Minnesota Department of Human Services

Federal Agency: U. S. Department of Health and Human Services

CFDA Number/Program Name:

93.778 Medical Assistance

Questioned Costs: Nonquantifiable

Finding 06-10-5 *Inadequate controls over indirect cost allocation.*

5. The Department of Human Services did not have adequate controls over some aspects of its indirect cost allocations.

The department did not ensure the accuracy of some of its indirect cost allocations. In many cases, the department charges indirect costs shared by several programs to a common account, and later distributes those costs among several programs. This process is called indirect cost allocation. During fiscal year 2005, the department allocated an average of \$61 million each quarter. The department did not have adequate controls over some aspects of indirect cost allocations to ensure that programs were being charged appropriately.

First, the department did not compare total indirect costs to the total allocated costs after the cost allocation process had been completed each quarter. This comparison would ensure that the department included all costs and adjustments. It also ensures that all costs and adjustments were actually allocated to the individual programs. We performed this comparison and found no differences.

Second, the program accountant did not accurately record Medical Assistance Program (CFDA 93.778) indirect costs in the accounting system. Over the last few years, the accountant has made numerous coding errors, including using incorrect object codes and record dates. As a result, the department has been unable to verify if the Medical Assistance Program correctly paid the appropriate portion of the allocated indirect costs.

Recommendations

- *The department should reconcile total indirect costs to total allocated costs each quarter to ensure it included all costs and adjustments and that it actually allocated all costs to the individual programs.*

Minnesota Office of the Legislative Auditor
Schedule of Findings and Questioned Costs
Section III: Federal Program Audit Findings – Continued

- *The department should review prior years' cost allocations and compare the Medical Assistance Program's allocated indirect costs to paid indirect costs to ensure the program paid the correct amount of indirect costs.*

Minnesota Department of Human Services Response:

The department agrees with the recommendation. The reconciliation was inadvertently discontinued after a staff person's retirement. The department will resume reconciling total indirect costs to total allocated costs each quarter.

Person Responsible: Marty Cammack

Estimated Completion Date: June 30, 2006

The department agrees with the recommendation. The department will reconcile the Medical Assistance prior years' allocated indirect costs to payments made and make any necessary payment adjustments. The department will assure that the reconciliation continues on an on-going basis.

Person Responsible: Marty Cammack

Estimated Completion Date: June 30, 2006

Minnesota Office of the Legislative Auditor
Schedule of Findings and Questioned Costs
Section III: Federal Program Audit Findings – Continued

Report 06-10

State Agency: Minnesota Department of Human Services

Federal Agency: U. S. Department of Health and Human Services

CFDA Numbers/Program Names:

93.044	Support Services and Senior Centers
93.045	Aging Nutrition Services

Questioned Costs: None – Procedural Finding Only

Finding 06-10-7 *Inaccurate quarterly SF-269 reporting.*

7. Department of Human Services' staff assigned to the Board on Aging did not accurately prepare three federal reports.

The staff incorrectly prepared semi-annual federal SF-269 reports for the Support Services and Senior Centers Program (CFDA 93.044), the Nutrition Services Program (CFDA 93.045), and other aging-related federal programs. On three SF-269 reports for fiscal years 2004 and 2005, the staff entered the incorrect total federal share, double counted third-party (in kind) contributions, or omitted the state match share. The staff correctly reported the total federal share on the March 31, 2005, SF-269 report. Since the other two errors related to non-federal funds, the staff intends to adjust the amounts on the next report rather than revise and resubmit the prior reports.

Recommendation

- *The department should ensure the accuracy and completeness of federal aging program reports.*

Minnesota Department of Human Services Response:

The department agrees with the recommendation. We believe that the problems were one time errors and we will adjust the federal reports for the quarter ending March 31, 2006.

Person Responsible: Jim Varpness

Estimated Completion Date: March 31, 2006

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Section III: Federal Program Audit Findings – Continued

Report 06-10

State Agency: Minnesota Department of Human Services – Hennepin County

Federal Agencies: U. S. Department of Agriculture
U. S. Department of Health and Human Services

CFDA Numbers/Program Names:

10.551	Food Stamps
93.558	Temporary Assistance for Needy Families
93.767	State Children's Health Insurance Program
93.778	Medical Assistance

Questioned Costs: None – Procedural Finding Only

Finding 06-10-H-1 *No monitoring of FIAT override transactions.*

1. PRIOR FINDING PARTIALLY RESOLVED: Hennepin County did not monitor high-risk eligibility override transactions. (Finding 05-18-H-1)

County human services managers and supervisors did not monitor high-risk eligibility override transactions for the State Children's Health Insurance, Medical Assistance, Temporary Assistance for Needy Families, and Food Stamp programs. County workers use these override transactions, called FIATS, to allow applicants to receive benefits even though MAXIS, the state Department of Human Services' (DHS) eligibility determination system, originally could not make a determination or deemed the person to be ineligible.

In certain cases, it is appropriate for county human services employees to use FIAT transactions. Employees use MAXIS to determine recipient eligibility for several state and federal public assistance programs. Due to continuous changes in state and federal eligibility requirements and other factors, there are certain times when MAXIS does not produce accurate eligibility determinations. When these circumstances arise, most county caseworkers have the ability to use FIAT transactions to override the eligibility determinations produced by the system. These transactions are high-risk and should be thoroughly reviewed and monitored for legitimacy.

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Hennepin County has not implemented its corrective action plan to address FIAT issues. During fiscal year 2005, county management took some steps to heighten awareness of FIAT transactions. It created a desk guide listing appropriate FIAT codes, highlighted the appropriate use of FIATS in its case reviews, and addressed the topic at supervisory and staff meetings as promised. However, as of the end of fiscal year 2005, the county had not implemented its plan to perform monthly reviews of workers with high individual FIAT usage.

Recommendation

- *Hennepin County management should fully implement procedures to monitor eligibility override transactions.*

Minnesota Department of Human Services – Hennepin County Response:

Corrective Action Plan for Finding #1

As stated in the finding, Hennepin County did implement all of the items in its corrective action plan with one exception – producing a usable FIAT report. This report is now available and is produced and distributed to managers for review on a quarterly basis.

In addition to the steps outlined in corrective action plan, Hennepin County arranged for Minnesota Department of Human Services staff to conduct individual training sessions during July 2005 for each of the eligibility teams in the county responsible for processing Medical Assistance cases. A point of emphasis in those training sessions was the appropriate use of FIAT.

Persons Responsible: Human Services Program Managers, Tom Pingatore, Adults Area
Lisa Groves, Families Area

Estimated Completion Date: The final item of the corrective action plan was completed by July 31, 2005.

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Section III: Federal Program Audit Findings – Continued

Report 06-10

State Agency: Minnesota Department of Human Services – Hennepin County

Federal Agency: U. S. Department of Health and Human Services

CFDA Numbers/Program Names:

93.558 Temporary Assistance for Needy Families

93.778 Medical Assistance

Questioned Costs: Nonquantifiable

Finding 06-10-H-2 *Untimely resolution of discrepancies identified by IEVS.*

2. PRIOR FINDING NOT RESOLVED: Hennepin County did not resolve income discrepancies identified as part of the benefit eligibility process in the timeframes required by federal regulations. (Finding 05-18-H-2)

Hennepin County did not resolve income discrepancies identified by the Income Eligibility and Verification System (IEVS) in a timely manner, as required by federal regulations. In order to comply with federal requirements, the state Department of Human Services (DHS) coordinates data exchanges with other sources for the Temporary Assistance for Needy Families and the Medical Assistance programs. This data exchange, called IEVS, includes comparing income information submitted by applicants with income and tax information obtained from other state and federal sources, such as the Minnesota Department of Employment and Economic Development, the Social Security Administration, and the Internal Revenue Service.

Discrepancies occur when the income amounts recorded in MAXIS, the state's eligibility determination system, differ by more than a pre-established target amount. DHS relies on county human services offices to review and resolve these discrepancies. Federal law requires the state to resolve at least 80 percent of the case discrepancies within 45 days. The state does not meet timeliness requirements established by the federal government. Hennepin County is a significant contributor to that compliance concern. For the period May 1, 2004, through April 30, 2005, Hennepin County's resolution rate was 59 percent. The county's fiscal year 2004 resolution rate was 63 percent.

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Schedule of Findings and Questioned Costs
Section III: Federal Program Audit Findings – Continued

Recommendation

- *Hennepin County should resolve Income Eligibility Verification System (IEVS) discrepancies in a timely manner.*

Minnesota Department of Human Services – Hennepin County Response:

Since December 2004, the Debt Establishment Unit has been responsible for resolving all income discrepancies in the families area, and part of the adults area. In March 2005, responsibility for all of the adults area was added to this unit. We did discover that the Debt Establishment Unit had an incorrect understanding of the required timeframes for resolving discrepancies. This misunderstanding was resolved in July 2005.

Corrective Action Plan for Finding #2

Since the Debt Establishment Unit was made aware of the correct timeframes for resolving discrepancies in July 2005, there has been significant improvement in results. Our expectation is that the goal of resolving 80% of discrepancies within 45 days will be achieved for the period July 2005 through December 2005 and will be maintained at that level on an ongoing basis.

Persons Responsible: Human Services Program Managers, Tom Pingatore, Adults Area
Lisa Groves, Families Area

Estimated Completion Date: July 31, 2005

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Report 06-10

State Agency: Minnesota Department of Human Services – Ramsey County

Federal Agencies: U. S. Department of Agriculture
U. S. Department of Health and Human Services

CFDA Numbers/Program Names:

10.551	Food Stamps
93.558	Temporary Assistance for Needy Families
93.767	State Children's Health Insurance Program
93.778	Medical Assistance

Questioned Costs: None – Procedural Finding Only

Finding 06-10-R-1 *No monitoring of FIAT override transactions.*

1. PRIOR FINDING NOT RESOLVED: Ramsey County did not monitor high-risk eligibility override transactions. (Finding 05-18-R-1)

County human services managers and supervisors did not monitor high-risk eligibility override transactions for the State Children's Health Insurance, Medical Assistance, Temporary Assistance for Needy Families, and Food Stamp programs. County workers use these override transactions, called FIATS, to allow applicants to receive benefits even though MAXIS, the state Department of Human Services' (DHS) eligibility determination system, originally could not make a determination or deemed the person to be ineligible.

In certain cases, it is appropriate for county human services employees to use FIAT transactions. Employees use MAXIS to determine recipient eligibility for several state and federal public assistance programs. Due to continuous changes in state and federal eligibility requirements and other factors, there are certain times when MAXIS does not produce accurate eligibility determinations. When these circumstances arise, most county caseworkers have the ability to use FIAT transactions to override the eligibility determinations produced by the system. These transactions are high-risk and should be thoroughly reviewed and monitored for legitimacy.

Ramsey County has not implemented its corrective action plan to address FIAT issues. The risk of erroneous benefits increases when caseworkers have the ability to bypass established controls by using FIATS and management has not developed and implemented adequate independent oversight.

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Schedule of Findings and Questioned Costs
Section III: Federal Program Audit Findings – Continued

Recommendation

- *Ramsey County management should develop and implement procedures to routinely monitor eligibility override transactions.*

Minnesota Department of Human Services – Ramsey County Response:

As requested we will describe the actions we will take to address these issues and identify the person responsible for those actions.

1. Ramsey County did not monitor high-risk eligibility transaction.

The actions you refer to are FIAT actions in MAXIS. FIAT is a feature of the MAXIS system that allows for the override of a system generated case action. For some programs, some Medical programs, General Assistance, Group Residential Housing and Minnesota Supplemental Assistance, FIAT is the only method to generate and approve program results. The MFIP (TANF) and Food Support programs are the only programs within MAXIS that are significantly automated to generate results.

Ramsey County has developed a quarterly report of FIAT actions regarding the MFIP and Food Support programs. FIAT actions are identified by worker and supervisor, and each supervisor is given the results for their unit.

For our Adult Services programs the FIAT report is compared against the Report Active panel on MAXIS to see if MSA or GA is active. It is necessary to FIAT Food Support when there is GA or MSA, as the income is not automatically pulled over. The majority of the cases are this type of case. For example, had 89 cases on the report, 78 had GA or MSA income. In one case FIAT was used to bring over the correct amount of Social Security. In the other 10 cases it appears it was not necessary to use FIAT but workers do so out of habit. Reminders have been sent to staff about using FIAT only when required.

FIAT is a systems issue. DHS recently held a meeting to discuss the use of FIAT and the FIAT report. Ramsey staff participated in this meeting and brought forward examples of situations that currently require the use of FIAT. We requested more specific codes for each situation (workers currently must use “10” for almost every situation) and that DHS try to make changes to the system to reduce the use of FIAT. A copy of the current codes and the case situations we submitted to DHS are attached.

Persons Responsible: Human Service Managers Shannon Kennedy and Nancy Cincotta are responsible for the continued monitoring of FIAT actions. Ms. Cincotta will also be participating in the DHS workgroup on FIAT.

Estimated Completion Date: Ongoing

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Report 06-10

State Agency: Minnesota Department of Human Services – Ramsey County

Federal Agency: U. S. Department of Health and Human Services

CFDA Numbers/Program Names:

93.558	Temporary Assistance for Needy Families
93.778	Medical Assistance

Questioned Costs: Nonquantifiable

Finding 06-10-R-2 *Untimely resolution of discrepancies identified by IEVS.*

2. PRIOR FINDING NOT RESOLVED: Ramsey County did not resolve income discrepancies identified as part of the benefit eligibility process in the timeframes required by federal regulations. (Finding 05-18-R-2)

Ramsey County did not resolve income discrepancies identified by the Income Eligibility and Verification System (IEVS) in a timely manner, as required by federal regulations. In order to comply with federal requirements, the state Department of Human Services (DHS) coordinates data exchanges with other sources for the Temporary Assistance for Needy Families and the Medical Assistance programs. This data exchange, called IEVS, includes comparing income information submitted by applicants with income and tax information obtained from other state and federal sources, such as the Minnesota Department of Employment and Economic Development, the Social Security Administration, and the Internal Revenue Service.

Discrepancies occur when the income amounts recorded in MAXIS, the state's eligibility determination system, differ by more than a pre-established target amount. DHS relies on county human services offices to review and resolve these discrepancies. Federal law requires the state to resolve at least 80 percent of the case discrepancies within 45 days. The state does not meet timeliness requirements established by the federal government. Ramsey County is a significant contributor to that compliance concern. For the period May 1, 2004, through April 30, 2005, Ramsey County's resolution rate was 70.5 percent. The county's fiscal year 2004 resolution rate was 65 percent.

Recommendation

- *Ramsey County should resolve Income Eligibility Verification System (IEVS) discrepancies in a timely manner.*

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Section III: Federal Program Audit Findings – Continued

Minnesota Department of Human Services – Ramsey County Response:

As requested we will describe the actions we will take to address these issues and identify the person responsible for those actions.

2. Ramsey County did not resolve income discrepancies identified as part of the benefit eligibility process in the timeframes required by federal regulations.

Your recommendation is that Ramsey County meet the timeliness standard for the resolution of Income Eligibility Verification System (IEVS) matches. This standard is 80% of all matches resolved within 45 days of the match being made known to the agency.

Ramsey County shares this goal and has continued to make progress toward achieving it. In the Food Stamp Management Evaluation Review finding of May 14, 2005, it was noted that Ramsey County had a 74% timeliness rate and had made very good progress reducing the number of overdue matches in the last year. In order to seek continued improvement we have taken the following actions:

- A. Reformatted the monthly DHS report by worker and supervisor and used it to identify staff or units that need to improve the timeliness of their IEVS resolutions.
- B. Made IEVS training part of our new worker training.
- C. Hired a temporary worker to resolve the backlog of IEVS matches.

We are confident these actions and continued monitoring for compliance will get our IEVS resolution rate within federal guidelines.

Persons Responsible: Humans Service Managers Nancy Cincotta and Bao Vang will be responsible for the ongoing monitoring of our IEVS compliance efforts.

Estimated Completion Date: Ongoing

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Report 06-10

State Agency: Minnesota Department of Human Services – Saint Louis County

Federal Agencies: U. S. Department of Agriculture
U. S. Department of Health and Human Services

CFDA Numbers/Program Names:

10.551	Food Stamps
93.558	Temporary Assistance for Needy Families
93.767	State Children's Health Insurance Program
93.778	Medical Assistance

Questioned Costs: None – Procedural Finding Only

Finding 06-10-S-1 *No monitoring of FIAT override transactions.*

1. PRIOR FINDING NOT RESOLVED: Saint Louis County did not monitor high-risk eligibility override transactions. (Finding 05-18-S-1)

County human services managers and supervisors did not monitor high-risk eligibility override transactions for the State Children's Health Insurance, Medical Assistance, Temporary Assistance for Needy Families, and Food Stamp programs. County workers use these override transactions, called FIATS, to allow applicants to receive benefits even though MAXIS, the state Department of Human Services (DHS) eligibility determination system, originally could not make a determination or deemed the person to be ineligible.

In certain cases, it is appropriate for county human services employees to use FIAT transactions. Employees use MAXIS to determine recipient eligibility for several state and federal public assistance programs. Due to continuous changes in state and federal eligibility requirements and other factors, there are certain times when MAXIS does not produce accurate eligibility determinations. When these circumstances arise, most county caseworkers have the ability to use FIAT transactions to override the eligibility determinations produced by the system. These transactions are high-risk and should be thoroughly reviewed and monitored for legitimacy.

Saint Louis County has not implemented its corrective action plan to address FIAT issues. The risk of erroneous benefits increases when caseworkers have the ability to bypass established controls by using FIATS, and management has not developed and implemented adequate independent oversight.

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Section III: Federal Program Audit Findings – Continued

Recommendation

- *Saint Louis County management should develop and implement procedures to routinely monitor eligibility override transactions.*

Minnesota Department of Human Services – St. Louis County Response:

St. Louis County has taken the following steps regarding FIAT review:

1. St. Louis County, through the directors' professional association, has solicited the MN Department of Human Services to create a more useful and concise FIAT report for use by counties. As a result of that solicitation, two work groups have been formed to meet that outcome.
2. St. Louis County has assigned two staff to attend each of these work group meetings: Shelley Saukko and Earl Beaudin.
3. Until the new FIAT reports are created, St. Louis County will immediately implement the following procedure:

One clerical staff person will be assigned to go through the current FIAT Report monthly, highlighting specific codes that need to be reviewed and crossing out those FIATs which are automatic or outside of financial worker discretion. This list will be copied and distributed to each supervisor. Supervisors will review this list, read case notes, and/or discuss the case with assigned workers, as appropriate.

Persons Responsible: St. Louis County Staff

Estimated Completion Date: Ongoing

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Section III: Federal Program Audit Findings – Continued

Report 06-12

State Agency: Minnesota Department of Transportation

Federal Agency: U. S. Department of Transportation

CFDA Number/Program Name:

20.205 Highway Planning and Construction Program

Questioned Costs: \$12,568,300

Finding 06-12-2 *Project oversight procedures need improvement.*

2. Prior Audit Finding Not Resolved: The department did not adequately follow certain project oversight procedures.

The MnDOT Office of Audit's Single Audit report for fiscal year 2005 identified various concerns and issues where project management oversight could be strengthened or improved. The office identified the following issues for the federal Highway Planning and Construction Program (CFDA #20.205) based on 17 highway construction projects audited.

- The MnDOT Office of Audit recommended additional management attention for bituminous, concrete, and grading and base production documentation and materials testing requirements. The report identified 12 projects tested in which either reductions in payments were not taken, bituminous and concrete testing, grading and base material control, mix design, or test summary sheets requirements were not followed, or bituminous ticket information was not completed as required. In 3 of 12 projects, the report identified a need to hold the contractor and MnDOT project personnel accountable to follow the requirements. In addition, for 5 of the 12 projects either the contractor quality control testing was not done independently from agency quality assurance and verification testing, or quality control test results were missing or suggested retesting was not done. For the above projects, the MnDOT Office of Audit's report questioned \$9.075 million.
- Although MnDOT Office of Audit noted improvements from last year, compliance with National Pollutant Discharge Elimination System permit requirements is a continuing problem. Documented weekly inspections of erosion control effectiveness are required for coverage under the permit. The MnDOT Office of Audit report identified five projects where contractors did not

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complete and submit all required permit Inspection Logs to project personnel every two weeks as required. In addition, MnDOT Office of Audit questioned costs totaling \$1,300 for two building demolitions not being properly documented and one project for \$119,000 for allowing a contractor to ship hazardous waste to a disposal facility not authorized by the contracts special provisions.

- The MnDOT Office of Audit also questioned a \$2.7 million increase in project costs on a project as a result of an inadequate geotechnical investigation. In addition, for another project, the audit report questioned \$640,000 paid for work done that was determined and documented as unacceptable by project personnel. Finally, the audit report questioned a \$33,000 duplicate payment made on another project.

Recommendation

- *The department should continue to strengthen its project oversight procedures to ensure compliance with federal and state requirements.*

Minnesota Department of Transportation Response:

Increasing numbers of projects at all levels (state, county, city), increasing complexity of work, and evolving requirements are a continuing challenge. Mn/DOT continues through a variety of efforts to keep abreast of requirements and procedures and ensure communication to responsible individuals at all levels. Some of the actions in response to this finding include:

- Discussion among project staff to clarify and mutually agree to specification understanding.
- High level discussions with the Concrete Engineer who determined that all tests for State Project 7380-0206 were within tolerance.
- District State Aid Engineer met with a county engineer and county attorney to resolve out of tolerance tests and appropriate penalty assessment.
- Multi-agency training of construction project staff (state, city, and county) as well as consultant staff regarding inspection and environmental regulations.
- Creation of a new policy for testing of Bulk Specific Gravity failures for use by lab staff.
- Multi-agency distribution of a Memo instructing cities, counties, and districts to comply with state and federal environmental requirements.

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- Metro Materials has merged into one unit resulting in more efficient use of available manpower. A scoping committee has been formed to review all plan changes that will result in better evaluation of project scope earlier in a project.

Persons Responsible: Julie Skallman, State Aid for Local Transportation Division
Richard Stehr, Engineering Services Division Director
Robert Winter, District Operations Division Director

Estimated Completion Date: Immediately and ongoing

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Report 06-12

State Agency: Minnesota Department of Transportation

Federal Agency: U. S. Department of Transportation

CFDA Number/Program Name:

20.106 Airport Improvement Program

Questioned Costs: \$151,000

Finding 06-12-3 *Material testing requirements were not met.*

3. The department did not ensure compliance with material testing requirements for the Airport Improvement Program (CFDA #20.106).

The MnDOT Office of Audit identified numerous instances where bituminous testing requirements were not met for one airport improvement project. The project was managed by a Metropolitan Airports Commission consultant, who hired another consultant to perform material testing. The MnDOT Office of Audit had concerns as to whether specified tests were performed and whether affected material met requirements in accordance with Federal Aviation Administration guidelines. For example, test summary sheets for bituminous did not detail quality assurance tests and, therefore, there was no documented comparison for allowable tolerances between quality control and quality assurance tests. In addition, test summary sheets were not signed by the contractor or agency representatives, other tests were not documented, and no mix design sheet was available for the bituminous surface mix.

As a result of these documentation concerns, the MnDOT Office of Audit questioned \$151,000 of the bituminous mixture affected.

Recommendation

- *The department should communicate with the Metropolitan Airports Commission to ensure that bituminous testing requirements are met.*

Minnesota Department of Transportation Response:

Mn/DOT's Aeronautics Office has communicated with the Metropolitan Airports Commission (MAC) and the Federal Aviation Administration (FAA) reminding them that quality control and assurance is the responsibility of the airport sponsor's engineer. MAC has indicated to the

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Aeronautics Office that they will work with their construction engineers and inspectors to assure that this testing is completed according to specifications.

Person Responsible: Randy Halvorson, Program Management Division Director

Estimated Completion Date: January 2006.

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Section III: Federal Program Audit Findings – Continued

Report 06-12

State Agency: Minnesota Department of Transportation

Federal Agency: U. S. Department of Transportation

CFDA Number/Program Name:

20.205 Highway Planning and Construction Program

Questioned Costs: None – Procedural Finding Only

Finding 06-12-4 *Failure to reconcile project status reports to billings.*

4. The department did not reconcile its federal billing to the Federal Highway Administration's (FHWA) project status report.

The MnDOT Office of Audit's Single Audit report determined that the reconciliation between the MnDOT Federal Billing and the Federal Highway Administration's project status report had not been done since February 2003. The report indicated that under the Letter of Agreement and Stewardship Plan between FHWA and MnDOT, MnDOT is required to reconcile one third of the affected apportionment codes monthly. The plan identifies this reconciliation as a prime accounting control to be exercised by MnDOT.

Recommendation

- *The department should reconcile its Federal Billings to the FHWA's project status report on a monthly basis as required under the Letter of Agreement.*

Minnesota Department of Transportation Response:

Mn/DOT's Office of Finance was unable to perform the reconciliation between FHWA M25A and the federal bill because of a problem with the data in the Federal Management Information System (FMIS). The data in FMIS has been fixed and the office has been performing reconciliations since October 2005.

Person Responsible: Kevin Gray, Director, Finance and Administration Division

Estimated Completion Date: October 2005 and ongoing

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Section III: Federal Program Audit Findings – Continued

Report KDV-05

State Agency: Minnesota State Colleges and Universities

Federal Agency: U. S. Department of Education

CFDA Numbers/Program Names:

84.007	Federal Supplemental Educational Opportunity Grant
84.033	Federal Work Study
84.063	Federal Pell Grant
84.268	Federal Direct Student Loans (FDSL)
84.032	Federal Family Education Loans (FFEL)
84.038	Federal Perkins Loans
93.364	Nursing Student Loans

Questioned Costs: None – Procedural Finding Only

Finding KDV-05-1 *Need to clarify satisfactory academic progress policies.*

Condition #1:

Certain colleges and universities were not in compliance with federal regulations related to satisfactory academic progress requirements as listed below:

- Anoka Technical College and Vermilion Community College satisfactory academic progress policies do not clearly define requirements for probation, suspension and reinstatement.
- Minnesota State College – Southeast Technical College’s satisfactory academic progress policy is unclear what the requirement is for suspensions during summer sessions.
- Inver Hills Community College, Itasca Community College, Minnesota West Community and Technical College, Mesabi Range Community and Technical College, Minneapolis Community and Technical College, Pine Technical College, Rainy River Community College and Ridgewater College satisfactory academic progress policies are incomplete in defining the requirements students must meet in order to remain on probation.

Specifically, the policies must state what the term requirements are and include a provision that if it is not possible for a student to raise her or his GPA or course completion percentage to meet the institution’s standards before the student would reach the end of the program for which he or she is receiving financial aid, the institution shall suspend the student from financial aid eligibility immediately upon completion of the evaluation.

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Schedule of Findings and Questioned Costs
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- Vermilion Community College's satisfactory academic progress policy does not begin evaluation of a student's progress until the student has attempted eight credits. Federal regulations do not allow the exclusion of any attempted credits from evaluation criteria.
- Anoka Technical College's satisfactory academic progress policy contains notification language that is inconsistent with federal regulations. Specifically, the notification provision states it is the student's responsibility to monitor and maintain SAP. Failure to receive notification does not exclude a student from the SAP process. Federal regulations require institutions to monitor satisfactory academic progress.
- Minnesota State College – Southeast Technical College, South Central College and Winona State University's satisfactory academic progress policies do not contain examples of extenuating circumstances in which a student may appeal a financial aid suspension.
- North Hennepin Community College's satisfactory academic progress policy is unclear and needs to be rewritten to ensure that students are aware that extenuating circumstances must be considered when approving maximum timeframe appeals.
- Bemidji State University, Hibbing Community College, Mesabi Range Community and Technical College, Pine Technical College, Ridgewater College, Riverland Community College, St. Cloud State University, St. Cloud Technical College, St. Paul College and Southwest Minnesota State University need to rework the language in their satisfactory academic progress policies related to reinstatement of financial aid. The policies need to make it clear to students that paying for their own classes and sitting out a period of time is not sufficient in and of itself to re-establish a student's financial aid eligibility.
- Anoka Ramsey Community College and St. Cloud State University's satisfactory academic progress policies are incomplete in that they do not specify the treatment of grades on a student's grade point average if a student repeats a course.
- South Central College's satisfactory academic progress policy does not include transfer credit or withdrawal information as required by federal regulations.
- Anoka Technical College, Century College, Metropolitan State University and St. Cloud State University's academic satisfactory academic progress policies are more strict than their financial aid satisfactory academic progress policies. Federal regulations specifically require that financial aid satisfactory academic progress policies be as strict or stricter than an institutions academic satisfactory academic progress policy.

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Criteria:

The *OMB Compliance Supplement* requires an institution to establish and publish an academic progress policy in compliance with OMB requirements. These requirements are explained in more detail in the SFA Handbook.

Effect:

The above named Colleges and Universities are not in compliance with the SFA Handbook.

Recommendation:

Ensure the Colleges' and Universities' satisfactory academic progress policy addresses all of the requirements in the SFA regulations. Implement policies and procedures to be used by the colleges and universities to monitor compliance with satisfactory academic progress requirements in accordance with the OMB requirements and SFA regulations.

Condition #2:

Colleges and universities have not implemented required provisions of MnSCU System Procedure 2.9.1.

A review of college and university financial aid satisfactory academic progress policies found that the majority were not in compliance with MnSCU System Procedure 2.9.1 – Financial Aid Satisfactory Academic Progress. This procedure was developed to ensure that all colleges and universities comply with federal regulations related to satisfactory academic progress. In addition, the procedure defines provisions to gain uniformity among college and university policies. The procedure was effective in April 2004. Many of the issues noted during the review related to uniformity and do not directly violate federal regulations.

Recommendation:

MnSCU colleges and universities should ensure that they are in compliance with MnSCU System Procedure 2.9.1 – Financial Aid Satisfactory Academic Progress.

Condition #3:

A review of control procedures relating to repeated courses contained within the College and University financial aid satisfactory academic progress policies found significant variances between campuses. The review also found that the financial aid and student system used by all Colleges and Universities does not have an automated way to enforce the varying policies, which may result in some campuses not being in compliance with federal requirements.

Discussions with management informed us that MnSCU is looking at a uniform policy regarding repeated courses.

Recommendation:

Ensure the Colleges' and Universities' satisfactory academic progress policy relating to repeated courses addresses the requirements in MnSCU policy 2.9.1 and the SFA regulations. Implement consistent control policies and procedures to be used by the colleges and universities to monitor compliance with repeated courses in accordance with the OMB requirements and SFA regulations.

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Minnesota State Colleges and Universities Response:

The finding cites specific improvements needed in Satisfactory Academic Progress Policies for 24 institutions. Management accepts the noted issues. All matters have been discussed with the appropriate personnel at each college or university. The colleges and universities are beginning implementation of the recommendations. Office of the Chancellor staff will assist when necessary. The Office of Internal Auditing will monitor the progress.

Persons Responsible: Anne Weyandt, President, Anoka Technical College; Patrick Johns, President, Anoka Ramsey Community College; Jon E. Quistgaard, President, Bemidji State University; Larry Litecky, President, Century College; Joe Sertich, President, Northeast Higher Education District (issues noted at the following colleges within the district: Vermilion Community College, Itasca Community College, Mesabi Range Community and Technical College and Rainy River Community College); Cheryl Frank, President, Inver Hills Community College; Wilson G. Bradshaw, President, Metropolitan State University; Phillip Davis, President, Minneapolis Community and Technical College; Ronald A. Wood, President, Minnesota West Community and Technical College; Ann Wynia, President, North Hennepin Community College; Robert Musgrove, President, Pine Technical College; Doug Allen, President, Ridgewater College; Terrence Leas, President, Riverland Community College; Keith Stover, President, South Central College; Jim Johnson, President, Minnesota State College – Southeast Technical; Roy H. Saigo, President, St. Cloud State University; Joan Volkmuth, President, St. Cloud Technical College; Donovan Schwichtenberg, President, St. Paul College; David C. Danahar, President, Southwest Minnesota State University; Judith Ramaley, President, Winona State University

Estimated Completion Date: Fall 2006

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Report KDV-05

State Agency: Rochester Community and Technical College

Federal Agency: U. S. Department of Education

CFDA Numbers/Program Names:

84.063	Federal Pell Grant
84.032	Federal Family Education Loans (FFEL)

Questioned Costs:	\$1,725	Federal Pell Grants
	<u>\$6,625</u>	FFEL
	<u>\$8,350</u>	Total

Finding KDV-05-2 *Inadequate monitoring of satisfactory academic progress.*

Condition:

Rochester Community and Technical College did not manually track some prior years' academic forgiveness students as required by their current satisfactory academic progress policy. As a result, the student in question was ineligible for aid that was awarded.

Criteria:

The *OMB Compliance Supplement* requires an institution to establish and publish an academic progress policy in compliance with OMB requirements, including academic forgiveness policies. These requirements are explained in more detail in the SFA Handbook.

Effect:

The above College was not in compliance with the SFA Handbook relating to academic forgiveness.

Recommendation:

Implement policies and procedures to be used by the College to monitor compliance with satisfactory academic progress requirements in accordance with the OMB requirements and SFA regulations, specifically relating to academic forgiveness.

Minnesota State Colleges and Universities Response:

The finding cites an issue related to tracking students with academic forgiveness. Management accepts the noted issue. The college is currently tracking students who are granted academic forgiveness as it relates to federal financial aid.

Person Responsible: Don Supalla, President, Rochester Community and Technical College

Estimated Completion Date: Implemented

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Report KDV-05

State Agency: Minnesota State Colleges and Universities

Federal Agency: U. S. Department of Education

CFDA Numbers/Program Names:

84.268	Federal Direct Student Loans (FDSL)
84.032	Federal Family Education Loans (FFEL)

Questioned Costs: None – Procedural Finding Only

Finding KDV-05-3 *Some institutions did not timely report changes in student status.*

Condition:

The following Colleges and Universities did not report changes in student status to the National Student Loan Data System (“NSLDS”) clearinghouse within the required deadlines through submission of student status confirmation reports every 60 days.

	<u>Number of Instances</u>
Dakota County Technical College	2
Inver Hills Community College	1
Minnesota West Community and Technical College	1
Minnesota State College – Southeast Technical	1
Rochester Community and Technical College	2
Southwest Minnesota State University	2
Winona State University	3

In addition, we also noted that the scheduling of data submissions to the clearinghouse and roster file creations left exposure for non-compliance with the 60 day requirement at various times during the year at Minnesota State University, Mankato, Minnesota State College – Southeast Technical, Rochester Community and Technical College and Winona State University.

Criteria:

Under the requirements for the Federal Family Education Loan and Federal Direct Student Loan Programs, changes in student status must be reported to NSLDS within 30 days, unless a Roster File is scheduled to be submitted within 60 days.

Effect:

The above Colleges and Universities are not in compliance with the reporting requirements specified by federal program guidelines.

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Recommendation:

The above Colleges and Universities should ensure student status changes are reported to NSLDS within 30 days, unless a Roster File submission is expected within 60 days. They should also review the submission dates for NSLDS to ensure compliance with either the 30 or 60 day requirement.

Minnesota State Colleges and Universities Response:

The finding cites the need to improve the timeliness of reporting changes to the National Student Loan Data System clearinghouse at eight institutions. Management accepts the noted issues. All matters have been discussed with the appropriate personnel at each college or university. The colleges and universities are beginning implementation of the recommendations. Office of the Chancellor staff will assist when necessary. The Office of Internal Auditing will monitor the progress.

Persons Responsible: Ronald E. Thomas, President, Dakota Technical College; Cheryl Frank, President, Inver Hills Community College; Ronald A. Wood, President, Minnesota West Community and Technical College; Jim Johnson, President, Minnesota State College – Southeast Technical; Richard W. Davenport, President, Minnesota State University, Mankato; Don Supalla, President, Rochester Community and Technical College; David C. Danahar, President, Southwest Minnesota State University; Judith Ramaley, President, Winona State University

Estimated Completion Date: Fall 2006

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Report KDV-05

State Agency: Minnesota State Colleges and Universities

Federal Agency: U. S. Department of Education

CFDA Number/Program Name:

84.063 Federal Pell Grant

Questioned Costs: None – Procedural Finding Only

Finding KDV-05-4 *Certain institutions did not timely report grant disbursements.*

Condition:

The following Colleges and Universities did not report Federal Pell Grant Program (Pell) disbursements within 30 days:

	<u>Number of Instances</u>
Dakota County Technical College	2
Metropolitan State University	2
Rochester Community and Technical College	1

Criteria:

Under the requirements for the Federal Pell Grant Program, institutions must report student payment data within 30 calendar days after the institution makes a payment to students or becomes aware of the need to make an adjustment to previously reported or expected student payment data.

Effect:

The above Colleges and University are not in compliance with the reporting requirements specified by federal program guidelines.

Recommendation:

The above Colleges and University should ensure that Federal Pell Grant expenditures are reported to the U.S. Department of Education within 30 days of being disbursed.

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Minnesota State Colleges and Universities Response:

The finding cites the need to improve the timeliness of reporting Pell Grant disbursements at three institutions. Management accepts the noted issues. All matters have been discussed with the appropriate personnel at each college or university. The colleges and universities are beginning implementation of the recommendations. Office of the Chancellor staff will assist when necessary. The Office of Internal Auditing will monitor the progress.

Persons Responsible: Ronald E. Thomas, President, Dakota Technical College; Wilson G. Bradshaw, President, Metropolitan State University; Don Supalla, President, Rochester Community and Technical College

Estimated Completion Date: Fall 2006

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Report KDV-05

State Agency: Minnesota State Colleges and Universities

Federal Agency: U. S. Department of Education

CFDA Numbers/Program Names:

84.063	Federal Pell Grant
84.268	Federal Direct Student Loans (FDSL)
84.032	Federal Family Education Loans (FFEL)
84.038	Federal Perkins Loans

Questioned Costs: None – Procedural Finding Only

Finding KDV-05-5 *Lack of policies for verifying applicant information.*

Condition:

The following Colleges did not have all the required policies and procedures in place for verifying applicant information as required by 34 CFR Sections 668.51 through 668.61.

Inver Hills Community College – incomplete policy
Minnesota State Community and Technical College – draft policy available
Northland Community and Technical College – incomplete policy

Criteria:

Under the requirements of 34 CFR Sections 668.51 through 668.61, an institution not participating under an ED-approved QAP is required to establish written procedures that incorporate the above provisions for verifying applicant information, including number of family members, number of family members attending post secondary education institutions, dependency status, adjusted gross income, U.S. taxes paid and untaxed income.

Effect:

The above Colleges are not in compliance with the verification requirements specified by federal program guidelines.

Recommendation:

The above Colleges should develop complete written policies for verification procedures as required by 34 CFR 668.51 through 668.61.

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Minnesota State Colleges and Universities Response:

The finding cites lack of complete policies in place for verifying financial aid applicant information at three institutions. Management accepts the noted issues. All matters have been discussed with the appropriate personnel at each college or university. The colleges and universities are beginning implementation of the recommendations. Office of the Chancellor staff will assist when necessary. The Office of Internal Auditing will monitor the progress.

Persons Responsible: Cheryl Frank, President, Inver Hills Community College; Ann Valentine, President, Minnesota State Community and Technical College; Interim President James R. Davis, Northland Community and Technical College

Estimated Completion Date: Fall 2006

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Section III: Federal Program Audit Findings – Continued

Report KDV-05

State Agency: Minnesota State Colleges and Universities

Federal Agency: U. S. Department of Education

CFDA Numbers/Program Names:

84.007	Federal Supplemental Educational Opportunity Grant
84.063	Federal Pell Grant
84.032	Federal Family Education Loans (FFEL)
84.038	Federal Perkins Loans

Questioned Costs: \$117,289

Finding KDV-05-6 *Title IV funds to be returned were not correctly calculated or returned.*

Condition:

Inver Hills Community College incorrectly calculated return of Title IV funds for the fall 2004 term. The calculations were based on waiving a percentage of charges based on the last date of attendance. The impact of this calculation error was \$ 1,099.

Winona State University returned an amount that did not agree to the return of Title IV calculation. The impact of this was that Pell was underpaid by \$ 140 and Perkins Loan was overpaid \$ 140. This has been corrected.

St. Cloud State University did not perform calculations or return to Title IV funds for students who unofficially withdrew for spring 2005 and summer 2005 terms. The impact for Spring 2005 was \$ 96,662 and Summer 2005 was \$ 19,388. A summary of these questioned costs by SFA Program is as follows:

<u>CFDA</u>	<u>Description</u>	<u>Time Period</u>	<u>Total</u>
84.063	Federal Pell Grant	2005	\$ 8,891
84.032	Subsidized Federal Family Education Loans	2005	38,250
84.032	Unsubsidized Federal Family Education Loans	2005	69,573
84.038	Federal Perkins Loans	2005	575
			<u>\$ 117,289</u>

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Criteria:

The *OMB Compliance Supplement* requires an institution to properly calculate and determine the return of Title IV funds for all students that receive financial aid and either officially or unofficially withdraw.

Effect:

The above College and Universities may not be consistent with special tests and provisions regarding return of Title IV funds as specified by the *OMB Compliance Supplement*.

Recommendation:

The above College and Universities should improve the methodology used to identify students and perform timely and accurate return of Title IV fund calculations.

Minnesota State Colleges and Universities Response:

The finding cites issues related to return of Title IV fund calculations at three institutions. Management accepts the noted issues. All matters have been discussed with the appropriate personnel at each college or university. The colleges and universities are beginning implementation of the recommendations. Office of the Chancellor staff will assist when necessary. The Office of Internal Auditing will monitor the progress.

Persons Responsible: Cheryl Frank, President, Inver Hills Community College; Roy H. Saigo, President, St. Cloud State University; Judith Ramaley, President, Winona State University

Estimated Completion Date: Fall 2006

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Report KDV-05

State Agency: Minnesota State Colleges and Universities

Federal Agency: U. S. Department of Education

CFDA Numbers/Program Names:

84.032 Federal Family Education Loans (FFEL)
84.268 Federal Direct Student Loans (FDSL)

Questioned Costs: \$ 1,293 FDSL
\$ 9,173 FFEL
\$10,466 Total

Finding KDV-05-7 *Student awards exceeded program limits.*

Condition:

Certain students received subsidized FFEL and FDSL loans in excess of permitted amounts from the following Colleges and Universities:

	<u>Number of Affected Students</u>	<u>Amount of Over Award</u>	<u>Description</u>
Minnesota State University, Mankato	2	\$ 4,626	D
Century College	1	1,274	D
Minnesota State College -Southeast Technical	1	139	T
North Hennepin Technical College	1	1,273	T
Dakota County Technical College	1	1,273	T
Minnesota State University, Moorhead	1	1,293	S
St. Cloud State University	1	<u>588</u>	R
		<u><u>\$ 10,466</u></u>	

T – The student transferred from another institution during the academic year. Financial aid awarded by the previous Institution was not appropriately considered in calculating financial aid at the destination institution. The student was awarded an excess amount of financial aid at the destination institution as a result.

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- D – The Institution erroneously duplicated a payment to the student, or over awarded amounts due to an inaccurate grade classification. The student subsequently repaid the Institution for the amount of the erroneous disbursement.
- S – The institution erroneously duplicated a payment to the student. The student was billed for the duplicate payment but has not paid for the amount in error.
- R – Students' academic record related to graduate studies admission was erroneously adjusted, incorrectly increasing the status to Graduate from Senior. Excess funds were awarded at Graduate status.

Electronic file interrogation techniques were applied to the fiscal year 2005 Student Financial Assistance Cluster Program disbursements for the entire student population and identified the following analysis:

Loan Type	Student Population	Potential Key Items	Sample Size	Sample Errors	Questioned Costs
Subsidized Loans	60,636	46	20	7	\$ 9,173
Subsidized Direct Loans	10,629	1	1	0	-
Unsubsidized Loans	75,992	855	19	1	1,293
Unsubsidized Direct Loans	13,145	79	4	0	-
Total	160,402	981	44	8	\$ 10,466

Criteria:

The *OMB* requires an institution properly calculate and determine an eligible student's financial aid award. The *NSLDS* is maintained in order to avoid overawards, and institutions are required to determine if students have already received their limit of FFEL loans through verification of any records in the *NSLDS*.

Effect:

The above named Colleges and Universities are not in compliance with eligibility requirements regarding FFEL and FDSL loans.

Recommendation:

The Colleges and Universities should ensure all students eligible for FFEL and FDSL loans have been verified through the *NSLDS* and that no awards have already been disbursed at another institution. The Colleges and Universities should also ensure students are awarded aid based on accurate eligibility levels.

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Minnesota State Colleges and Universities Response:

The finding cites isolated instance of loan overpayments to students at seven institutions. Management accepts the noted issues. All matters have been discussed with the appropriate personnel at each college or university. The colleges and universities are beginning implementation of the recommendations. Office of the Chancellor staff will assist when necessary. The Office of Internal Auditing will monitor the progress.

Persons Responsible: Richard W. Davenport, President, Minnesota State University, Mankato; Larry Litecky, President, Century College; Jim Johnson, President, Minnesota State College – Southeast Technical; Ann Wynia, President, North Hennepin Community College; Ronald E. Thomas, President, Dakota Technical College; Roland Barden, President, Minnesota State University Moorhead; Roy H. Saigo, President, St. Cloud State University

Estimated Completion Date: Fall 2006

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Report KDV-05

State Agency: Metropolitan State University

Federal Agency: U. S. Department of Education

CFDA Number/Program Name:

84.033 Federal Work Study

Questioned Costs: \$4,944

Finding KDV-05-8 University did not earmark correct funds for community service workers.

Condition:

The above University did not use at least 7% of its initial and supplemental FWS allocations for the award year to compensate students employed in community service activities. Additional funds of \$ 4,944 were needed to comply with the 7% earmark requirement.

Criteria:

The *OMB Compliance Supplement* requires an institution to use 7% of its FWS allocation to students employed in Community Service Activities.

Effect:

The above University was not in compliance with the OMB Compliance Supplement relating to Earmarking.

Recommendation:

The above University should ensure all required earmarking is performed and allocated in the future.

Minnesota State Colleges and Universities Response:

The finding cites issue with required federal work study earmark requirements at one institution. Management accepts the noted issue. All matters have been discussed with the appropriate personnel at the university. The university has begun implementation of the recommendation. Office of the Chancellor staff will assist when necessary. The Office of Internal Auditing will monitor the progress.

Person Responsible: Wilson G. Bradshaw, President, Metropolitan State University

Estimated Completion Date: Fall 2006

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Schedule of Findings and Questioned Costs
Section III: Federal Program Audit Findings – Continued

Report KDV-05

State Agency: Minnesota State Colleges and Universities

Federal Agencies: U. S. Department of Education
U. S. Department of Health and Human Services

CFDA Numbers/Program Names:

84.007	Federal Supplemental Educational Opportunity Grant
84.033	Federal Work Study
84.063	Federal Pell Grant
84.268	Federal Direct Student Loans (FDSL)
84.032	Federal Family Education Loans (FFEL)
84.038	Federal Perkins Loans
93.364	Nursing Student Loans

Questioned Costs: None – Procedural Finding Only

Finding KDV-05-9 *Excessive security rights to the financial aid system.*

Condition:

Many colleges and universities had excessive security access rights granted to individuals to the financial aid system, including setup access for the financial aid system and deleting and changing holds.

Criteria:

The *OMB Compliance Supplement* administrative capability provisions require adequate security controls over SFA operations.

Effect:

MnSCU Colleges and Universities accepted a level of system control risk that created unnecessary security exposure to system access rights.

Recommendation:

MnSCU Colleges and Universities should ensure that access to the financial aid system is limited to appropriate levels based on job responsibilities to reduce unnecessary security risks.

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Minnesota State Colleges and Universities Response:

The finding cites an issue with excessive security rights to the financial aid system. Management accepts the noted issue. All matters have been discussed with the appropriate personnel at each college or university. The colleges and universities are beginning implementation of the recommendations. Office of the Chancellor staff will assist when necessary. The Office of Internal Auditing will monitor the progress.

Person Responsible: Christopher Halling, System Director for Financial Aid

Estimated Completion Date: December 2006

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Report KDV-05

State Agencies: Ridgewater College
 Metropolitan State University

Federal Agency: U. S. Department of Education

CFDA Numbers/Program Names:

84.007	Federal Supplemental Educational Opportunity Grant
84.033	Federal Work Study
84.063	Federal Pell Grant
84.268	Federal Direct Student Loans (FDSL)
84.032	Federal Family Education Loans (FFEL)
84.038	Federal Perkins Loans

Questioned Costs: None – Procedural Finding Only

Finding KDV-05-10 Incorrect drawdown of federal funds.
 Grant activity not reconciled to general ledger.

Condition #1:

Ridgewater College did not draw down \$ 75,075 of federal work study funds as reported on the FISAP report. The College has subsequently drawn down these funds. Further, the College is not recording monthly loan cancellations as reported to it by the MnSCU Central Loan Management System.

Criteria:

The *OMB Compliance Supplement* requires accurate and timely reporting of SFA drawdowns.

Effect:

The above College was not in compliance with the OMB Compliance Supplement relating to period of availability and reporting of funds.

Recommendation:

The above College should ensure all drawdowns are accurately and timely reported in the accounting records.

Minnesota State Colleges and Universities Response:

The finding cites an issue with administration of federal financial aid programs. Management accepts the noted issue. All matters have been discussed with the appropriate personnel at the college. The college has begun implementation of the recommendation. Office of the

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Chancellor staff will assist when necessary. The Office of Internal Auditing will monitor the progress.

Person Responsible: Doug Allen, President, Ridgewater College

Estimated Completion Date: December 2006

Condition #2:

Grant activity at Metropolitan State University has not been reconciled to the University's general ledger system for several years. As a result, grant activity may not have been reported correctly for some federal grants. Initially, the University thought it may have overdrawn Pell grants by \$295,000 in a prior year. Further work on the reconciliations has determined that this is not the case. The University continues to work on reconciling federal grants to their general ledger.

Criteria:

The *OMB Compliance Supplement* requires accurate and timely reporting of federal grant information.

Effect:

The above University was not in compliance with the OMB Compliance Supplement relating to period of availability and reporting of federal funds.

Recommendation:

Metropolitan State University should implement procedures to review and reconcile activity for federal grants to ensure compliance with OMB Provisions.

Minnesota State Colleges and Universities Response:

The finding cites an issue with administration of federal financial aid programs. Management accepts the noted issue. All matters have been discussed with the appropriate personnel at the university. The university has begun implementation of the recommendation. Office of the Chancellor staff will assist when necessary. The Office of Internal Auditing will monitor the progress.

Person Responsible: Wilson G. Bradshaw, President, Metropolitan State University

Estimated Completion Date: December 2006

Minnesota Office of the Legislative Auditor
Schedule of Findings and Questioned Costs
Section III: Federal Program Audit Findings – Continued

Report KDV-05

State Agency: Winona State University

Federal Agencies: U. S. Department of Education
U. S. Department of Health and Human Services

CFDA Numbers/Program Names:

84.007	Federal Supplemental Educational Opportunity Grant
84.033	Federal Work Study
84.063	Federal Pell Grant
84.268	Federal Direct Student Loans (FDSL)
84.032	Federal Family Education Loans (FFEL)
84.038	Federal Perkins Loans
93.364	Nursing Student Loans

Questioned Costs: None – Procedural Finding Only

Finding KDV-05-11 Failure to timely report administrative changes to Department of Education.

Condition:

The Federal Student Aid Handbook requires the University to report certain administrative changes to the Department of Education via E-Application within 10 calendar days of the change. Winona State University failed to report the change in the University president within the 10 calendar day requirement.

Criteria:

The Federal Student Aid Handbook requires timely reporting of administrative changes to the Department of Education.

Effect:

The above University was not in compliance with the Federal Student Aid Handbook relating to reporting of information.

Recommendation:

Winona State University should implement procedures to promptly report the required information changes to the Department of Education.

Minnesota Office of the Legislative Auditor
Schedule of Findings and Questioned Costs
Section III: Federal Program Audit Findings – Continued

Minnesota State Colleges and Universities Response:

The finding cites an issue with notifying the Department of Education of a change in President. Management accepts the noted issue. All matters have been discussed with the appropriate personnel at the university. The university has begun implementation of the recommendation. Office of the Chancellor staff will assist when necessary. The Office of Internal Auditing will monitor the progress.

Person Responsible: Judith Ramaley, President, Winona State University

Estimated Completion Date: Fall 2006

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STATE OF MINNESOTA
STATUS OF PRIOR STATEWIDE FINANCIAL STATEMENT AUDIT FINDINGS
AS OF JUNE 30, 2005

STATE AGENCY	PROGRAM NAME	IDENTIFIED PROBLEM IN PRIOR SINGLE AUDIT REPORT	CATEGORY OF CORRECTIVE ACTION TAKEN*	RPT NO.	FIND NO.	AUDIT REPORT FISCAL YR
PRIMARY GOVERNMENT						
Administration	SEMA4 - Payroll Security	Excessive security clearances to some accounts.	1	04-36	4	04
Administration	Intertechnologies Group	Costs not allocated to the proper fiscal year.	2	02-05	1	01
Education	Federal School Aids	Inaccurate estimate of year-end Federal school aid liabilities.	1	05-15	1	04
Employment & Econ Development	Unemployment Insurance	Inadequate review of ownership changes and employer wage detail changes.	2	05-17	1	04
Employment & Econ Development	Unemployment Insurance	Inadequate data integrity controls over employer rate calculations.	2	05-17	2	04
Finance	Financial Reporting	Inadequate process for reporting capital equipment in financial statements.	1	05-19	1	04
Finance	Financial Reporting	Incomplete and/or inadequate budgetary information for financial statements.	1	05-19	2	04
Finance	Financial Reporting	Inaccurate reporting of the state's compensated absence liability.	1	05-19	3	04
Health	Financial Statement Preparation	Improper recognition of certain grant expenditures for financial reporting.	2	04-19	4	03
Human Services	Health Care Programs	Medical Assistance funds used for services not allowed.	1	04-11	1	03
Human Services	Information Technology	Inadequate protection of one account with clearance to production data.	1	04-11	8	03
Human Services	MAXIS Data Integrity	Inappropriate security clearances to MAXIS.	2	02-53	2	02
Human Services	MAXIS Data Integrity	Inadequate control and security over scheduled batch processing.	1	02-53	3	02
Iron Range Resources and Rehab	NE MN Economic Protection	Inadequate monitoring of venture capital financial activity.	4	02-66	6	02
MN State Colleges & Universities	Financial Management	Insufficient depository insurance and collateral at some institutions.	1	KDV	1	04
Natural Resources	License Revenue	No authority to issue refunds and inadequate control over refunds.	1	02-65	2	02
Revenue	Individual Income Tax Processing Controls	Inadequate overall security programs.	2	04-16	1	03
Revenue	Individual Income Tax Processing Controls	Inadequate access request procedures.	2	04-16	2	03
Revenue	Individual Income Tax Processing Controls	Ineffective procedures for modifying and revoking security clearances.	2	04-16	3	03
Revenue	Individual Income Tax Processing Controls	Weak controls to confirm the identity of system users.	2	04-16	4	03
Revenue	Individual Income Tax Processing Controls	Excessive clearance to individual income tax systems and data.	2	04-16	5	03
Revenue	Individual Income Tax Processing Controls	Untimely performance of important system maintenance procedures.	2	04-16	8	03
Revenue	Individual Income Tax Processing Controls	Inadequate monitoring of systems.	2	04-16	9	03
Transportation	Financial Reporting	Inadequate reporting of required infrastructure budgetary information.	1	05-20	1	04
Transportation	Financial Statement Preparation	Inadequate controls to ensure accurate reporting of capital outlay.	1	04-17	1	03
DISCRETELY PRESENTED COMPONENT UNITS						
MN Part. Against Tobacco	Financial Management	Inadequate internal accounting controls and separation of duties.	1	EB		03

***CATEGORY OF CORRECTIVE ACTION TAKEN**

1 - Findings have been fully corrected.

2 - Findings not corrected or only partially corrected.

For Categories 2-3, reference Rpt No and Find No on the Status of Statewide Audit Findings supplemental information for more detail.

3 - Corrective action taken is significantly different than previously reported.

4 - Audit findings are no longer valid or do not warrant further action.

State of Minnesota
Financial and Compliance Report on Federally Assisted Programs
Fiscal Year Ended June 30, 2005

**Index of Prior Statewide
Financial Statement Audit Findings**

<u>Report Number</u>	<u>State Agency</u>	<u>Page</u>
Report 02-05	Administration	117
Report 02-53	Human Services	120
Report 04-16	Revenue	121
Report 04-19	Health	129
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**Status of Prior Statewide Financial Statement Audit Findings
Supplemental Information**

Below are explanations for findings not fully corrected or the corrective action taken differs significantly from the previously stated corrective action plan.

Report 02-05

State Agency: Minnesota Department of Administration

Finding 02-05-1 *Costs not allocated to the proper fiscal year.*

1. The department did not consistently allocate certain InterTechnologies Group (ITG) costs to the correct fiscal year.

- *The InterTechnologies Group should work with the Financial Management and Reporting Division (FMR) to ensure costs are allocated to the correct fiscal year for financial reporting purposes.*

Office of Enterprise Technology Response:

Note: Since the last progress report in March 2005, from the Department of Administration (Admin), two significant events have occurred that impact the audit recommendation:

1. In July 2005, legislation was enacted creating the Office of Enterprise Technology (OET), which is comprised of two former Admin divisions: The Office of Technology and InterTechnologies Group. Thus, OET is presently the agency responsible for resolving the audit issue pertaining to ITG's financial reporting process.
2. Per interagency agreement effective October 1, 2005, OET will internally provide all financial services needed to function as a state agency and will not require the services of Admin's FMR staff, once all functions have been transitioned.

To ensure costs are allocated to the correct fiscal year (FY) for financial reporting purposes, OET finalized policies and procedures for *Recording Transactions in the Correct Accounting Period* on March 31, 2005. However, internal audit transaction testing during fiscal year 2006 revealed that these procedures were not fully understood by staff and implemented for the fiscal year 2005 year-end close.

Status of Prior Statewide Financial Statement Audit Findings Supplemental Information – Continued

Internal auditing transaction testing also revealed that some payments that crossed fiscal years were split incorrectly or not at all. Problem areas included:

- (1) Handling vendors' credits properly,
- (2) Determining the proper record date when the vendor's service period is not clearly evident on the invoice or the vendor invoice reflects several service periods, and
- (3) Calculating the cost allocations between fiscal years correctly.

For the detected errors, however, OET communicated the necessary corrections to Admin so that adjusting entries could be made for FY 2005 financial reporting purposes.

In recent months, OET's efforts to resolve the audit issue and to prevent its recurrence included:

- Establishing a continuous process improvement team to bring closure to the audit issue and ensuring it does not repeat itself; Cheryl Robillard leads this team.
- Providing additional training to the payment processors on the OET policy and procedures for split-coding payments properly between fiscal years.
- Equipping the A/P staff with two new tools to aid them in the payment process: (1) an Excel spreadsheet designed to calculate the amounts allocated to each period when splitting costs between years, and (2) a quick reference guide for determining proper record dates when processing payments in MAPS.
- Having A/P staff, in a 'practice session' setting, split payment transactions that crossed calendar years 2005 and 2006, and
- Having internal audit provide the payment processors with feedback on their performance during the recent 'practice session'.

Additional corrective actions planned include:

- Partnering A/P staff and internal audit to identify, discuss, and document lessons learned during the recent 'practice session' to share/transfer knowledge and to ensure that mistakes do not repeat themselves.
- Continuing to identify and analyze the underlying root cause of problems and to take appropriate remedial action, i.e., establishing orders in MAPS on a timely basis to enable payment processors to enter transaction dates correctly in MAPS.
- Enhancing OET policies and procedures to provide additional guidance on split-coding payments properly between fiscal years - particularly related to thorough examination of invoices and service periods, and handling vendor credits, service order changes, and prepaid

Status of Prior Statewide Financial Statement Audit Findings Supplemental Information – Continued

expenses properly due to the complexity of the invoices - and to promote continued compliance with pertinent finance-related legal provisions.

- Developing and implementing a process (including tools) for performing periodic self-checks on payments processed to ensure compliance with state and agency financial policies and procedures.
- Negotiating contract terms with existing and future service providers to have them invoice OET with billing periods whose end dates coincide with month-end dates (especially June 30), thereby minimizing the need for OET to split payment transactions between fiscal years.
- Making the necessary arrangements, subsequent to the MAPS close for FY 2006, for internal audit to test expenditures crossing fiscal years and provide reasonable assurance to management about whether these transactions were coded properly for financial reporting purposes.

Person Responsible: Julie Freeman, Acting Director, Financial Management Division, Office of Enterprise Technology.

Estimated Completion Date: September 8, 2006

**Status of Prior Statewide Financial Statement Audit Findings
Supplemental Information – Continued**

Report 02-53

State Agency: Minnesota Department of Human Services

Finding 02-53-2 *Inappropriate security clearances to MAXIS.*

2. Many employees and contractors had inappropriate security clearances.

Recommendations

- *The department should ensure that all MAXIS security clearances are commensurate with employees' job duties.*
- *The department should develop a process to periodically recertify the appropriateness of all MAXIS security clearances.*

Minnesota Department of Human Services Response:

Although we have completed the security clearance review for the groups noted in the audit report, the auditors are requiring us to review another group for the proper security clearance to MAXIS. We will undertake this additional review, but given the size of the security group it will take the department about a year to complete.

Person Responsible: Kate Wulf, Director, TSS

Estimated Completion Date: March 2007

**Status of Prior Statewide Financial Statement Audit Findings
Supplemental Information – Continued**

Report 04-16

State Agency: Minnesota Department of Revenue

Finding 04-16-1 *Inadequate overall security programs.*

1. The department's overall security program lacks important ingredients.

Recommendations

- *The department should perform periodic information technology risk assessments and use that information to develop detailed security baselines for its systems.*
- *The department should periodically validate the adequacy of its controls through independent assessments.*

Minnesota Department of Revenue Response:

1-1: Information technology implemented within the Department of Revenue is evaluated for risk, and mitigating measures are identified and documented in security baselines. Metrics are also being established to evaluate the effectiveness of those measures.

Person Responsible: Bruce Showel, Information Security

Estimated Completion Date: Complete

1-2: The department is continuing efforts to complete mitigating the control issues identified in the OLA audit.

The department has conducted an independent assessment to determine the appropriate security controls for architecture to support electronic data exchanges with our business partners.

The agency has also been independently evaluated as part of the executive branch vulnerability assessment of web sites and has taken actions to address issues noted. The department's internal routers and switches have been independently evaluated by the IRS and actions taken to address potential vulnerabilities.

Another independent assessment of the agency is currently in progress, as part of the security assessment of 14 agencies being coordinated by the Office of Enterprise Technology.

Person Responsible: Bruce Showel, Information Security

Estimated Completion Date: Ongoing

**Status of Prior Statewide Financial Statement Audit Findings
Supplemental Information – Continued**

Report 04-16

State Agency: Minnesota Department of Revenue

Finding 04-16-2 *Inadequate access request procedures.*

2. Access request procedures are weak in several respects.

Recommendation

- *The department should define, document, and communicate access request procedures that include:*
 - *types of security clearances that are appropriate for all types of employees, including information technology professionals;*
 - *acceptable methods to communicate access requests;*
 - *retention requirements for access request documentation; and*
 - *persons responsible for approving requests and entering security transactions.*

Minnesota Department of Revenue Response:

The department has committed to revamp access control processes within the agency. A cross-agency team redefined the department's business requirements for access control processes.

Two software solutions to achieve those business requirements have been acquired. Customization and installation of the access control workflow and documentation software is in progress.

Implementation of the second software solution has been delayed to enable the department to complete migration to Windows XP, so that only one implementation is required.

The department has increased permanent staffing to perform access control functions and monitor activity.

Person Responsible: Bruce Showel, Information Security

Estimated Completion Date: April 1, 2006

**Status of Prior Statewide Financial Statement Audit Findings
Supplemental Information – Continued**

Report 04-16

State Agency: Minnesota Department of Revenue

Finding 04-16-3 *Ineffective procedures for modifying and revoking security clearances.*

3. Procedures for modifying and revoking security clearances are not effective.

Recommendation

- *The department should adopt additional controls to identify and modify security clearances for people whose employment conditions change.*

Minnesota Department of Revenue Response:

The department has committed to revamp access control processes within the agency. A cross-agency team redefined the department's business requirements for access control processes.

Two software solutions to achieve those business requirements have been acquired. Customization and installation of the access control workflow and documentation software is in progress.

Implementation of the second software solution has been delayed to enable the department to complete migration to Windows XP, so that only one implementation is required.

The department has increased permanent staffing to perform access control functions and monitor activity.

Person Responsible: Bruce Showel, Information Security

Estimated Completion Date: April 1, 2006

**Status of Prior Statewide Financial Statement Audit Findings
Supplemental Information – Continued**

Report 04-16

State Agency: Minnesota Department of Revenue

Finding 04-16-4 *Weak controls to confirm the identity of system users.*

4. Controls used to confirm the identity of system users were weak in several respects.

Recommendations

- *The department should explore more robust ways to authenticate the identity of people with access to individual income tax processing systems.*
- *The department should implement and enforce comprehensive password management controls.*
- *The department should implement controls to ensure that critical system activities can be traced to specific individuals.*
- *The department should immediately change the default passwords after installing software.*

Minnesota Department of Revenue Response:

4-1 through 4-3: The department has committed to revamp access control processes within the agency. A cross-agency team redefined the department's business requirements for access control processes.

Two software solutions to achieve those business requirements have been acquired. Customization and installation of the access control workflow and documentation software is in progress.

Implementation of the second software solution has been delayed to enable the department to complete migration to Windows XP, so that only one implementation is required.

The department has increased permanent staffing to perform access control functions and monitor activity.

Authentication software and training have been acquired, but implementation delayed to enable the department's migration of Windows XP.

Person Responsible: Bruce Showel, Information Security

Estimated Completion Date: April 1, 2006

**Status of Prior Statewide Financial Statement Audit Findings
Supplemental Information – Continued**

4-4: The department has made these changes. Procedures will also be updated to minimize the risk of acquiring and implementing software without changing the default passwords.

Person Responsible: Jerry Hanson, Information Systems

Estimated Completion Date: Complete

**Status of Prior Statewide Financial Statement Audit Findings
Supplemental Information – Continued**

Report 04-16

State Agency: Minnesota Department of Revenue

Finding 04-16-5 *Excessive clearance to individual income tax systems and data.*

5. Many people had excessive clearance to individual income tax systems and data.

Recommendation

- *The department should examine all employees' security clearances to ensure that they are commensurate with their job duties.*

Minnesota Department of Revenue Response:

The department has committed to revamp access control processes within the agency. A cross-agency team redefined the department's business requirements for access control processes.

Two software solutions to achieve those business requirements have been acquired. Customization and installation of the access control workflow and documentation software is in progress.

Implementation of the second software solution has been delayed to enable the department to complete migration to Windows XP, so that only one implementation is required.

The department has increased permanent staffing to perform access control functions and monitor activity.

Authentication software and training have been acquired, but implementation delayed to enable the department's migration of Windows XP.

Person Responsible: Bruce Showel, Information Security

Estimated Completion Date: April 1, 2006

**Status of Prior Statewide Financial Statement Audit Findings
Supplemental Information – Continued**

Report 04-16

State Agency: Minnesota Department of Revenue

Finding 04-16-8 *Untimely performance of important system maintenance procedures.*

8. The department did not promptly perform important system maintenance procedures.

Recommendation

- *The department should implement procedures to promptly install security-related patches.*

Minnesota Department of Revenue Response:

Updated procedures to ensure prompt installation of patches have been developed and documented. Patches that are security related are given priority and implemented ASAP. These testing procedures also include the testing of patches prior to installation to ensure that the patches do not negatively affect system operations.

Person Responsible: Lee Ho, Information Systems

Estimated Completion Date: Ongoing

**Status of Prior Statewide Financial Statement Audit Findings
Supplemental Information – Continued**

Report 04-16

State Agency: Minnesota Department of Revenue

Finding 04-16-9 *Inadequate monitoring of systems.*

9. The department does not adequately monitor its systems.

Recommendation

- *The department should assess its monitoring needs and develop procedures to monitor its systems on an ongoing basis.*

Minnesota Department of Revenue Response:

The process of defining the pertinent security metrics for each technology implemented within the agency has been completed. Obtaining a commitment to apply the resources to generate this information and monitor activity is progressing. The department is also in the final stages of recruiting college interns to assist in this monitoring.

Person Responsible: Bruce Showel, Information Security

Estimated Completion Date: Ongoing

**Status of Prior Statewide Financial Statement Audit Findings
Supplemental Information – Continued**

Report 04-19

State Agency: Minnesota Department of Health

Finding 04-19-4 *Improper recognition of certain grant expenditures for financial reporting.*

- 4. The Department of Health did not properly recognize certain grant expenditures for financial reporting.**

Recommendation

- *The department should compare advances made to the boards to the amounts spent by the boards at June 30. The department should report the differences to the Department of Finance for financial reporting purposes.*

Minnesota Department of Health Response:

The Department of Health has an electronic reporting system for local agencies to report expenditures. The current system collects data on the fiscal year of the grant, which is August to July. This reporting system is being modified to collect data on June 30, instead of May 31. This change will allow us to report the amount of cash that has not been spent by the end of the state fiscal year.

Person Responsible: David Hovet, Director, Finance and Facilities Management

Estimated Completion Date: Ongoing

**Status of Prior Statewide Financial Statement Audit Findings
Supplemental Information – Continued**

Report 05-17

State Agency: Minnesota Department of Employment and Economic Development

Finding 05-17-1 *Inadequate review of ownership changes and employer wage detail changes.*

- 1. The Department of Employment and Economic Development (DEED) needs to improve scrutiny of changes to employer accounts and wage detail data, and the related impact on unemployment insurance rates and revenue recognition.**

Recommendations

- *DEED should develop procedures for reviewing employer account changes and use computerized methods to analyze the propriety of large wage detail adjustments.*
- *DEED should review applicable accounting principles and develop a process to estimate revenue accruals resulting from inappropriate experience rating transfers.*

Minnesota Department of Employment and Economic Development Response:

1-1: We developed a new software tool to detect the movement of workers from entity to entity. The tool will create the special detection reports designed to alert staff to the possible manipulation of wage data and tax avoidance.

Person Responsible: Kathy Nelson

Estimated Completion Date: Spring 2006

1-2: Process has been developed to estimate revenue accruals resulting from inappropriate experience rating transfers.

Person Responsible: John Stavros

Estimated Completion Date: Complete

**Status of Prior Statewide Financial Statement Audit Findings
Supplemental Information – Continued**

Report 05-17

State Agency: Minnesota Department of Employment and Economic Development

Finding 05-17-2 *Inadequate data integrity controls over employer rate calculations.*

- 2. DEED's data integrity controls require improvement to ensure the accuracy of employer unemployment insurance tax rate calculations.**

Recommendation

- *DEED should improve data integrity controls by reconciling and adjusting benefit charges posted to employer accounts when different than actual benefits paid and controlling computer application and data changes.*

Minnesota Department of Employment and Economic Development Response:

Part 1. As verified by the statistically valid sample of rate calculations submitted to the Department of Labor, our rate calculation process is accurate. Any deficiencies are being addressed in the system redesign.

Person Responsible: Kathy Nelson

Estimated Completion Date: Complete

Part 2. The current system of manual adjustments to keep the benefits payable in sync with the benefits chargeable is being automated.

Person Responsible: Kathy Nelson

Estimated Completion Date: Fall 2007

STATE OF MINNESOTA
STATUS OF PRIOR FEDERAL PROGRAM AUDIT FINDINGS
AS OF JUNE 30, 2005

CFDA NO.	PROGRAM NAME	STATE AGENCY	IDENTIFIED PROBLEM IN PRIOR SINGLE AUDIT REPORT	CATEGORY OF CORRECTIVE ACTION TAKEN*	RPT NO.	FIND NO.	AUDIT REPORT FISCAL YR
U. S. Department of Agriculture							
10.551	Food Stamps	Human Services	Inappropriate security clearances to MAXIS.	2	02-53	2	02
10.551	Food Stamps	Human Services	Inadequate control and security over scheduled batch processing.	1	02-53	3	02
10.551	Food Stamps	Human Services	Inadequate protection of one account with clearance to production data.	1	04-11	8	03
10.551	Food Stamps	Human Services	Tax SSN validation follow-up controls.	1	05-13	1	04
10.551	Food Stamps	Human Services	Inappropriate security clearance to change IEVS data.	2	05-13	5	04
10.551	Food Stamps	Human Services	Ineffective IEVS data processing controls.	1	05-13	6	04
10.551	Food Stamps	Human Services - Anoka County	No specific monitoring of FIAT override transactions.	1	05-18	A-1	04
10.551	Food Stamps	Human Services - Anoka County	Inadequate monitoring of employee access to MAXIS.	1	05-18	A-2	04
10.551	Food Stamps	Human Services - Dakota County	Inadequate monitoring of FIAT override transactions.	1	05-18	D-1	04
10.551	Food Stamps	Human Services - Hennepin County	No monitoring of FIAT override transactions.	2	05-18	H-1	04
10.551	Food Stamps	Human Services - Ramsey County	No monitoring of FIAT override transactions.	2	05-18	R-1	04
10.551	Food Stamps	Human Services - Saint Louis County	No monitoring of FIAT override transactions.	2	05-18	S-1	04
10.557	Special Nutrition for Women, Infants & Children	Health	Salary allocations not sufficiently documented.	2	05-16	1	04
10.581	Food Stamp Administration	Human Services	Salary allocations not sufficiently documented.	1	05-18	1	04
U.S. Department of State							
19.424	Educational Partnerships Program	St. Cloud State University	Ineligible costs charged to the program.	1	KDV-04	8	04
U. S. Department of Labor							
17.207	Employment Services	Employment & Economic Development	Inaccurate determination of federal program expenditures.	1	05-17	3	04
17.207	Employment Services	Employment & Economic Development	Lack of contractor suspension and debarment verification.	1	05-17	4	04
17.225	Unemployment Insurance	Employment & Economic Development	Inadequate review of ownership changes, employer wage detail changes.	2	05-17	1	04
17.225	Unemployment Insurance	Employment & Economic Development	Inadequate data integrity controls over employer rate calculations.	2	05-17	2	04
17.280	Workforce Investment Act-Dislocated Worker	Employment & Economic Development	Inaccurate determination of federal program expenditures.	1	05-17	3	04
17.801	Disabled Veterans Outreach Program	Employment & Economic Development	Lack of contractor suspension and debarment verification.	1	05-17	4	04
17.804	Local Veterans' Employment Representative	Employment & Economic Development	Lack of contractor suspension and debarment verification.	1	05-17	4	04
U. S. Department of Transportation							
20.205	Highway Planning & Construction	Transportation	Project oversight procedures need improvement.	2	05-20	2	04

*CATEGORY OF CORRECTIVE ACTION TAKEN
1 - Findings have been fully corrected.
2 - Findings not corrected or only partially corrected.
3 - Corrective action taken is significantly different than previously reported.
4 - Audit findings are no longer valid or do not warrant further action.
For Categories 2-3, reference Rpt No and Find No on the Status of Statewide Audit Findings supplemental information for more detail.

STATE OF MINNESOTA
STATUS OF PRIOR FEDERAL PROGRAM AUDIT FINDINGS
AS OF JUNE 30, 2005

CFDA NO.	PROGRAM NAME	STATE AGENCY	IDENTIFIED PROBLEM IN PRIOR SINGLE AUDIT REPORT	CATEGORY OF CORRECTIVE ACTION TAKEN*	RPT NO.	FIND NO.	AUDIT REPORT FISCAL YR.
U. S. Department of Education							
84.007	Supplemental Education Opportunity Grant	Anoka TC	Inadequate restriction to computerized systems.	1	01-50	1	01
84.007	Supplemental Education Opportunity Grant	Anoka Ramsey CC	Inadequate restriction to computerized systems.	1	01-46	2	01
84.007	Supplemental Education Opportunity Grant	MN State Colleges & Universities	Satisfactory academic policies missing requirements.	4	DT-03	1	03
84.007	Supplemental Education Opportunity Grant	St. Cloud State U	Inadequate tracking between computerized systems.	1	01-20	7	01
84.027	Special Education Grants to States	Education	Grant not openly awarded.	1	04-42	1	04
84.027	Special Education Grants to States	Education	Inappropriate salary and rent charged to grant.	1	04-42	2	04
84.027	Special Education Grants to States	Education	Inappropriate consultant costs charged to grant.	1	04-42	3	04
Various	Financial Aid Cluster	State Colleges and Universities (MnSCU)	Omitted items in published satisfactory academic progress policies.	2	KDV-04	1	04
Various	Financial Aid Cluster	State Colleges and Universities (MnSCU)	Changes in student status not timely reported.	1	KDV-04	2	04
Various	Financial Aid Cluster	State Colleges and Universities (MnSCU)	Inadequate policies and procedures for verifying applicant information.	2	KDV-04	4	04
Various	Financial Aid Cluster	St. Cloud State University	Unimely calculations of return of Title IV funds.	1	KDV-04	5	04
Various	Financial Aid Cluster	Minnesota State University, Mankato	Inadequate monitoring of satisfactory academic progress.	2	KDV-04	6	04
Various	Financial Aid Cluster	State Colleges and Universities (MnSCU)	Student awards exceeded program limits.	1	KDV-04	7	04
Various	Financial Aid Cluster	Anoka Technical College	Omitted items in published satisfactory academic progress policies.	2	KDV-04	9	04
Various	Financial Aid Cluster	Anoka Technical College	Inconsistent calculation of return of Title IV funds.	2	KDV-04	9	04
84.032	Federal Family Education Loan Program	Anoka TC	Inadequate restriction to computerized systems.	1	01-50	1	01
84.032	Federal Family Education Loan Program	Anoka Ramsey CC	Inadequate restriction to computerized systems.	1	01-46	2	01
84.032	Federal Family Education Loan Program	MN State Colleges & Universities	Satisfactory academic policies missing requirements.	4	DT-03	1	03
84.032	Federal Family Education Loan Program	MN State Colleges & Universities	Changes in student information not reported in a timely manner.	1	DT-03	2	03
84.032	Federal Family Education Loan Program	St. Cloud State U	Inadequate tracking between computerized systems.	1	01-20	7	01
84.033	Federal Work-Study	Anoka Hennepin TC	Inadequate restriction to computerized systems.	1	01-50	1	01
84.033	Federal Work-Study	Anoka Ramsey CC	Inadequate restriction to computerized systems.	1	01-46	2	01
84.033	Federal Work-Study	MN State Colleges & Universities	Satisfactory academic policies missing requirements.	4	DT-03	1	03
84.033	Federal Work-Study	St. Cloud State U	Inadequate tracking between computerized systems.	1	01-20	7	01
84.038	Federal Perkins Loan	Anoka Ramsey CC	Inadequate restriction to computerized systems.	1	01-46	2	01
84.038	Federal Perkins Loan	MN State Colleges & Universities	Satisfactory academic policies missing requirements.	4	DT-03	1	03
84.038	Federal Perkins Loan	MN State Colleges & Universities	Changes in student information not reported in a timely manner.	1	DT-03	2	03
84.038	Federal Perkins Loan	St. Cloud State U	Inadequate tracking between computerized systems.	1	01-20	7	01
84.093	Federal Pell Grant	Anoka TC	Inadequate restriction to computerized systems.	1	01-50	1	01
84.093	Federal Pell Grant	Anoka Ramsey CC	Inadequate restriction to computerized systems.	1	01-46	2	01
84.093	Federal Pell Grant	MN State Colleges & Universities	Satisfactory academic policies missing requirements.	4	DT-03	1	03
84.093	Federal Pell Grant	MN State Colleges & Universities	Changes in student information not reported in a timely manner.	1	DT-03	2	03
84.093	Federal Pell Grant	St. Cloud State U	Inadequate tracking between computerized systems.	1	01-20	7	01
84.093	Federal Pell Grant	State Colleges and Universities (MnSCU)	Inadequate tracking between computerized systems.	2	KDV-04	3	04
84.128	Vocational Rehabilitation	Employment and Economic Development	Lack of written professional services contracts.	1	05-17	4	04
84.268	Federal Direct Student Loans	MN State Colleges & Universities	Satisfactory academic policies missing requirements.	4	DT-03	1	03
84.268	Federal Direct Student Loans	MN State Colleges & Universities	Changes in student information not reported in a timely manner.	1	DT-03	2	03

*CATEGORY OF CORRECTIVE ACTION TAKEN

- 1 - Findings have been fully corrected.
2 - Findings not corrected or only partially corrected.
3 - Corrective action taken is significantly different than previously reported.
4 - Audit findings are no longer valid or do not warrant further action.

For Categories 2-3, reference Rpt No and Find No on the Status of Statewide Audit Findings supplemental information for more detail.

STATE OF MINNESOTA
STATUS OF PRIOR FEDERAL PROGRAM AUDIT FINDINGS
AS OF JUNE 30, 2005

CFDA NO.	PROGRAM NAME	STATE AGENCY	IDENTIFIED PROBLEM IN PRIOR SINGLE AUDIT REPORT	CATEGORY OF CORRECTIVE ACTION TAKEN*	RPT NO.	FIND NO.	AUDIT REPORT FISCAL YR
U.S. Department of Education -continued							
93.364	Nursing Student Loans	MN State Colleges & Universities	Satisfactory academic policies missing requirements.	4	DT-03	1	03
U. S. Department of Health and Human Services							
93.263	CDC - Investigations and Technical Assistance	Health	Salary allocations not sufficiently documented.	2	05-18	1	04
93.263	CDC - Investigations and Technical Assistance	Health	Inadequate management of fixed assets.	2	05-18	3	04
93.558	Temporary Assistance for Needy Families	Human Services	Salary allocations not sufficiently documented.	1	05-19	1	04
93.558	Temporary Assistance for Needy Families	Human Services	Lax SSN validation follow-up controls.	1	05-13	1	04
93.558	Temporary Assistance for Needy Families	Human Services	IEVS not used to validate eligibility for many program recipients.	2	05-13	2	04
93.558	Temporary Assistance for Needy Families	Human Services	IEVS discrepancies not promptly resolved.	2	05-13	4	04
93.558	Temporary Assistance for Needy Families	Human Services	Inappropriate security clearance to change IEVS data.	2	05-13	5	04
93.558	Temporary Assistance for Needy Families	Human Services	Ineffective IEVS data processing controls.	4	05-13	6	04
93.558	Temporary Assistance for Needy Families	Human Services	Insufficient audit trail to prove IEVS matches were completed.	1	05-13	7	04
93.558	Temporary Assistance for Needy Families	Human Services - Anoka County	No specific monitoring of FIAT override transactions.	1	05-18	A-1	04
93.558	Temporary Assistance for Needy Families	Human Services - Anoka County	Inadequate monitoring of employee access to MAXIS.	1	05-18	A-2	04
93.558	Temporary Assistance for Needy Families	Human Services - Dakota County	Inadequate monitoring of FIAT override transactions.	1	05-18	D-1	04
93.558	Temporary Assistance for Needy Families	Human Services - Hennepin County	No monitoring of FIAT override transactions.	2	05-18	H-1	04
93.558	Temporary Assistance for Needy Families	Human Services - Hennepin County	Unlikely resolution of discrepancies identified by IEVS.	2	05-18	H-2	04
93.558	Temporary Assistance for Needy Families	Human Services - Ramsey County	No monitoring of FIAT override transactions.	2	05-18	R-1	04
93.558	Temporary Assistance for Needy Families	Human Services - Ramsey County	Unlikely resolution of discrepancies identified by IEVS.	2	05-18	R-2	04
93.558	Temporary Assistance for Needy Families	Human Services - Saint Louis County	No monitoring of FIAT override transactions.	2	05-18	S-1	04
93.558	Temporary Assistance for Needy Families	Human Services - Saint Louis County	Insufficient controls over setting up vendors for cash benefit payments.	1	05-18	S-2	04
93.558	Temporary Assistance for Needy Families	Human Services	Unlikely resolution of income discrepancies identified by IEVS.	2	04-11	4	03
93.558	Temporary Assistance for Needy Families	Human Services	Inadequate protection of one account with clearance to production data.	1	04-11	8	03
93.558	Temporary Assistance for Needy Families	Human Services	Inappropriate security clearances to MAXIS.	2	02-53	2	02
93.558	Temporary Assistance for Needy Families	Human Services	Inadequate control and security over scheduled batch processing.	1	02-53	3	02
93.563	Child Support Enforcement	Human Services	Salary allocations not sufficiently documented.	1	05-18	1	04
93.568	Low Income Home Energy Assistance	Commerce	Inadequate resolution of subrecipient audit issues.	1	05-14	2	04
93.575	Child Care and Development Block	Human Services	Salary allocations not sufficiently documented.	1	05-18	1	04
93.575	Child Care and Development Block	Human Services	Advances paid to subrecipients.	1	05-18	2	04
93.658	Foster Care - Title IV-E	Human Services	Salary allocations not sufficiently documented.	1	04-11	2	03
93.658	Foster Care - Title IV-E	Human Services	Salary allocations not sufficiently documented.	1	05-18	1	04
93.687	Social Services Block	Human Services	Salary allocations not sufficiently documented.	1	05-18	1	04
93.687	Social Services Block	Human Services	Salary allocations not sufficiently documented.	1	04-11	2	03
93.767	State Children's Health Insurance Program	Human Services	Salary allocations not sufficiently documented.	1	05-18	1	04
93.767	State Children's Health Insurance Program	Human Services	CMS-64 report not accurate and timely.	1	05-18	4	04
93.767	State Children's Health Insurance Program	Human Services	Inadequate documentation for certain eligibility criteria.	2	05-18	5	04
93.777	State Health Care Providers' Survey	Human Services	CMS-64 report not accurate and timely.	1	05-18	4	04

*CATEGORY OF CORRECTIVE ACTION TAKEN

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- 3 - Corrective action taken is significantly different than previously reported.
- 4 - Audit findings are no longer valid or do not warrant further action.

For Categories 2-3, reference Rpt No and Find No on the Status of Statewide Audit Findings supplemental information for more detail.

STATE OF MINNESOTA
STATUS OF PRIOR FEDERAL PROGRAM AUDIT FINDINGS
AS OF JUNE 30, 2005

CFDA NO.	PROGRAM NAME	STATE AGENCY	IDENTIFIED PROBLEM IN PRIOR SINGLE AUDIT REPORT	CATEGORY OF CORRECTIVE ACTION TAKEN*	RPT NO.	FIND NO.	AUDIT REPORT FISCAL YR.
	U.S. Health and Human Services-continued						
93.778	Medical Assistance	Human Services	Salary allocations not sufficiently documented.	1	05-18	1	04
93.778	Medical Assistance	Human Services	CMS-64 report not accurate and timely.	1	05-18	4	04
93.778	Medical Assistance	Human Services	Lax SSN validation follow-up controls.	1	05-13	1	04
93.778	Medical Assistance	Human Services	IEVS not used to validate eligibility for many program recipients.	2	05-13	2	04
93.778	Medical Assistance	Human Services	Unclear how IEVS discrepancy data impacts eligibility for prior periods.	2	05-13	3	04
93.778	Medical Assistance	Human Services	IEVS discrepancies not promptly resolved.	2	05-13	4	04
93.778	Medical Assistance	Human Services	Inappropriate security clearance to change IEVS data.	2	05-13	5	04
93.778	Medical Assistance	Human Services	Ineffective IEVS data processing controls.	1	05-13	6	04
93.778	Medical Assistance	Human Services	Insufficient audit trail to prove IEVS matches were completed.	4	05-13	7	04
93.778	Medical Assistance	Human Services - Anoka County	No specific monitoring of FIAT override transactions.	1	05-18	A-1	04
93.778	Medical Assistance	Human Services - Dakota County	Inadequate monitoring of FIAT override transactions.	1	05-18	O-1	04
93.778	Medical Assistance	Human Services - Hennepin County	No monitoring of FIAT override transactions.	2	05-18	H-1	04
93.778	Medical Assistance	Human Services - Ramsey County	Un timely resolution of discrepancies identified by IEVS.	2	05-18	H-2	04
93.778	Medical Assistance	Human Services - Ramsey County	No monitoring of FIAT override transactions.	2	05-18	R-1	04
93.778	Medical Assistance	Human Services - Ramsey County	Un timely resolution of discrepancies identified by IEVS.	2	05-18	R-2	04
93.778	Medical Assistance	Human Services - Saint Louis County	No monitoring of FIAT override transactions.	2	05-18	S-1	04
93.778	Medical Assistance	Human Services	MA funds used for services not allowed.	1	04-11	1	03
93.778	Medical Assistance	Human Services	Un timely resolution of income discrepancies identified by IEVS.	2	04-11	4	03
93.959	Substance Abuse Prevention and Treatment Block	Human Services	Salary allocations not sufficiently documented.	1	05-18	1	04
93.959	Substance Abuse Prevention and Treatment Block	Human Services	Overpayments made to some providers.	1	05-18	3	04

*CATEGORY OF CORRECTIVE ACTION TAKEN

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State of Minnesota
Financial and Compliance Report on Federally Assisted Programs
Fiscal Year Ended June 30, 2005

Index of Prior Federal Program Audit Findings

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**Status of Prior Federal Program Audit Findings
Supplemental Information**

Below are explanations for findings not fully corrected or the corrective action taken differs significantly from the previously stated corrective action plan.

Report 02-53

State Agency: Minnesota Department of Human Services

Federal Agencies: U.S. Department of Agriculture
U.S. Department of Health and Human Services

CFDA Numbers/Program Names:

10.551 Food Stamps
93.558 Temporary Assistance for Needy Families

Finding 02-53-2 *Inappropriate security clearances to MAXIS.*

2. Many employees and contractors had inappropriate security clearances.

Recommendations

- *The department should ensure that all MAXIS security clearances are commensurate with employees' job duties.*
- *The department should develop a process to periodically recertify the appropriateness of all MAXIS security clearances.*

Minnesota Department of Human Services Response:

Although we have completed the security clearance review for the groups noted in the audit report, the auditors are requiring us to review another group for the proper security clearance to MAXIS. We will undertake this additional review, but given the size of the security group it will take the department about a year to complete.

Person Responsible: Kate Wulf, Director, TSS

Estimated Completion Date: March 2007

Status of Prior Federal Program Audit Findings Supplemental Information – Continued

Report 04-11

State Agency: Minnesota Department of Human Services

Federal Agency: U.S. Department of Health and Human Services

CFDA Numbers/Program Names:

93.558 Temporary Assistance for Needy Families

93.778 Medical Assistance

Finding 04-11-4 *Untimely resolution of income discrepancies identified by IEVS.*

- 4. The department should work with the county social service agencies to resolve Income Eligibility Verification System (IEVS) discrepancies in a timely manner.**

Recommendation

- *The department should work with the county social service agencies to resolve Income Eligibility Verification System discrepancies in a timely manner.*

Minnesota Department of Human Services Response:

The department will continue to work with counties, particularly those not in compliance with federal regulations, to improve the timeliness of IEVS resolutions statewide.

- The department will continue to monitor the performance of Hennepin and Ramsey counties by sending them monthly reports on their overdue matches.
- As part of the FFY 2005 Food Support Management Evaluation (ME) Plan, counties being reviewed and not meeting the federal IEVS timeliness requirement will be required to do a corrective action plan to bring them into compliance.
- As part of the FFY 2005 ME review process, counties are being asked to assign someone to monitor IEVS timeliness on a monthly basis. Instructions on how to do this are being provided.
- The department will target counties not on the FFY 2005 ME review schedule and not meeting the federal timeliness requirements for a possible site visit and IEVS clean-up day.
- The department will work to develop more effective monitoring tools.

Status of Prior Federal Program Audit Findings Supplemental Information – Continued

The current status is that we continue to be under the standard. Our monthly calculations show that we range between 77% and a little over 80%. We have received the federal approval from ACF and CMS to revise our targeting of IVES matches and we plan to implement the new targeting plan by June 2006.

Person Responsible: Ramona Scarpace, Director, PAID

Estimated Completion Date: June 2006

**Status of Prior Federal Program Audit Findings
Supplemental Information – Continued**

Report 05-13

State Agency: Minnesota Department of Human Services

Federal Agency: U.S. Department of Health and Human Services

CFDA Numbers/Program Names:

93.558	Temporary Assistance for Needy Families
93.778	Medical Assistance

Finding 05-13-2 *IEVS not used to validate eligibility for many program recipients.*

- 2. The department did not use IEVS to validate eligibility data for many federal program recipients.**

Recommendations

- *The department should validate all income and eligibility data that is required to be validated by federal regulations. If it chooses to exclude certain types of income and eligibility data from its IEVS matches, the department should obtain federal approval.*
- *The department should obtain a legal opinion to determine if it can request information from people who are no longer active recipients of public assistance.*
- *The department should work with Mille Lacs Band of Ojibwe officials to seek approval to share federal tax data.*

Minnesota Department of Human Services Response:

We obtained clarification from the Department of Health and Human Services on which populations we are required to validate. The department received written approval of our updated targeting plan from ACF and CMS to exclude certain income types and eligibility data from its IEVS matches. We will implement the new validation plan by June 2006.

Person Responsible: Ramona Scarpace, Director, PAID

Estimated Completion Date: June 2006

**Status of Prior Federal Program Audit Findings
Supplemental Information – Continued**

Report 05-13

State Agency: Minnesota Department of Human Services

Federal Agency: U.S. Department of Health and Human Services

CFDA Number/Program Name:

93.778 Medical Assistance

Finding 05-13-3 *Unclear how IEVS discrepancy data impacts eligibility for prior periods.*

3. The department has not clearly defined how IEVS discrepancy data impacts the eligibility of Medical Assistance recipients.

Recommendations

- *The department should revise its Medical Assistance policies and procedures to ensure that caseworkers resolve all IEVS discrepancies, including those that pertain to prior eligibility periods.*
- *The department should track and quantify Medical Assistance payments made on behalf of ineligible recipients.*

Minnesota Department of Human Services (DHS) Response:

The 2005 Minnesota Legislature approved funding for five positions to staff a MinnesotaCare Program Integrity function. This function will be located in the Program Assessment and Integrity Division of the Families and Children Administration of DHS, and will center on investigations of suspected recipient fraud. Program Assessment and Integrity management in consultation with Health Care Administration is developing a work plan for full implementation of MinnesotaCare Program Integrity. A Health Care Eligibility and Access staff person who has been engaged in investigative activity with MinnesotaCare has been transferred to the Program Assessment and Integrity Division.

Additionally, Program Assessment and Integrity received funding from the 2005 Legislature to perform Health Care Quality Control work. They are currently developing a work plan and staffing up this function which will perform eligibility case reviews of Medical Assistance and MinnesotaCare cases.

Status of Prior Federal Program Audit Findings Supplemental Information – Continued

A bulletin and a form for counties to request voluntary repayment of overpayments due to correct IEVS matches has been drafted. Legal advice from the Office of the Attorney General regarding collection of MA overpayments and feedback from other DHS business areas involved in collection of overpayments must be incorporated before the instruction for counties is finalized.

Person Responsible: Kathleen Henry, Director, Health Care Eligibility and Access Division

Estimated Completion Date: May 31, 2006

Status of Prior Federal Program Audit Findings Supplemental Information – Continued

Report 05-13

State Agency: Minnesota Department of Human Services

Federal Agency: U.S. Department of Health and Human Services

CFDA Numbers /Program Names:

93.558	Temporary Assistance for Needy Families
93.778	Medical Assistance

Finding 05-13-4 *IEVS discrepancies not promptly resolved.*

4. PRIOR FINDING PARTIALLY RESOLVED: The department did not ensure that counties resolve IEVS discrepancies within federally mandated timelines.

Recommendation

- *The department should work with the county social service agencies to improve their IEVS discrepancy resolution processes. Special emphasis should be directed to counties not in compliance with federal regulations.*

Minnesota Department of Human Services Response:

The department will continue to work with counties, particularly those not in compliance with federal regulations, to improve the timeliness of IEVS resolutions statewide.

- The department will continue to monitor the performance of Hennepin and Ramsey counties by sending them monthly reports on their overdue matches.
- As part of the FFY 2005 Food Support Management Evaluation (ME) Plan, counties being reviewed and not meeting the federal IEVS timeliness requirement will be required to do a corrective action plan to bring them into compliance.
- As part of the FFY 2005 ME review process, counties are being asked to assign someone to monitor IEVS timeliness on a monthly basis. Instructions on how to do this are being provided.
- The department will target counties not on the FFY 2005 ME review schedule and not meeting the federal timeliness requirements for a possible site visit and IEVS clean-up day.
- The department will work to develop more effective monitoring tools.

Status of Prior Federal Program Audit Findings Supplemental Information – Continued

The current status is that we continue to be under the standard. Our monthly calculations show that we range between 77% and a little over 80%. We have received the federal approval from ACF and CMS to revise our targeting of IVES matches and we plan to implement the new targeting plan by June 2006.

Person Responsible: Ramona Scarpace, Director, PAID

Estimated Completion Date: June 2006

**Status of Prior Federal Program Audit Findings
Supplemental Information – Continued**

Report 05-13

State Agency: Minnesota Department of Human Services

Federal Agencies: U.S. Department of Agriculture
U.S. Department of Health and Human Services

CFDA Numbers/Program Names:

10.551	Food Stamps
93.558	Temporary Assistance for Needy Families
93.778	Medical Assistance

Finding 05-13-5 *Inappropriate security clearance to change IEVS data.*

5. PRIOR FINDING PARTIALLY RESOLVED: Many employees had inappropriate security clearance to change IEVS data.

Recommendation

- *The department should ensure that all security clearances are commensurate with employees' job duties.*

Minnesota Department of Human Services Response:

Although we completed the security review on those security groups noted in our original correction plan, the auditor is requesting that we review another security group that might have inappropriate security clearance to IEVS. This will be accomplished by February 2007.

Person Responsible: Kate Wulf, Director, TSS

Estimated Completion Date: February 2007

**Status of Prior Federal Program Audit Findings
Supplemental Information – Continued**

Report 05-16

State Agency: Minnesota Department of Health

Federal Agencies: U.S. Department of Agriculture
U.S. Department of Health and Human Services

CFDA Numbers/Program Names:

10.557 Special Nutrition for Women, Infants and Children
93.283 CDC – Investigations and Technical Assistance

Finding 05-16-1 *Salary allocations not sufficiently documented.*

- 1. PRIOR FINDING NOT RESOLVED:** The department did not comply with federal and state requirements for documenting time charged to programs, including the transfer of payroll costs between programs.

Recommendation

- *The Department of Health should comply with federal and state requirements for charging payroll to specific programs by:*
 - *establishing multiple funding sources for individual employees in SEMA4, as appropriate, to reduce the need for mass payroll expense transfers;*
 - *completing the periodic certifications for employees charged to a single federal program;*
 - *performing and documenting time studies when required; and*
 - *documenting the reason for transfers of payroll charges between funding sources and how the transfer is consistent with state or federal requirements.*

Minnesota Department of Health Response:

The department will distribute payroll certification forms to employees working 100% on a federal program. The department will also follow up with programs for which time studies are needed and establish a monitoring system to request time studies.

Person Responsible: David Hovet, Director, Finance and Facilities Management

Estimated Completion Date: Ongoing

**Status of Prior Federal Program Audit Findings
Supplemental Information – Continued**

Report 05-16

State Agency: Minnesota Department of Health

Federal Agency: U.S. Department of Health and Human Services

CFDA Number/Program Name:

93.283 CDC – Investigations and Technical Assistance

Finding 05-16-3 *Inadequate management of fixed assets.*

- 3. PRIOR FINDING PARTIALLY RESOLVED:** The Department of Health did not adequately manage its fixed assets. (Finding 04-19-5)

Recommendation

- *The department should improve its fixed assets management by maintaining a complete and accurate record of its fixed assets, including the funding source for fixed assets acquired through federal grants.*

Minnesota Department of Health Response:

The department will update its current fixed asset system to identify and locate all current assets that qualify as fixed assets and establish a plan to identify fixed assets at the time of ordering and establish a tracking system for them.

Person Responsible: David Hovet, Director, Finance and Facilities Management

Estimated Completion Date: Ongoing

**Status of Prior Federal Program Audit Findings
Supplemental Information – Continued**

Report 05-17

State Agency: Minnesota Department of Employment and Economic Development

Federal Agency: U.S. Department of Labor

CFDA Number/Program Name:

17.225 Unemployment Insurance

Finding 05-17-1 *Inadequate review of ownership changes and employer wage detail changes.*

1. The Department of Employment and Economic Development (DEED) needs to improve scrutiny of changes to employer accounts and wage detail data, and the related impact on unemployment insurance rates and revenue recognition.

Recommendations

- *DEED should develop procedures for reviewing employer account changes and use computerized methods to analyze the propriety of large wage detail adjustments.*
- *DEED should review applicable accounting principles and develop a process to estimate revenue accruals resulting from inappropriate experience rating transfers.*

Minnesota Department of Employment and Economic Development Response:

1-1: We developed a new software tool to detect the movement of workers from entity to entity. The tool will create the special detection reports designed to alert staff to the possible manipulation of wage data and tax avoidance.

Person Responsible: Kathy Nelson

Estimated Completion Date: Spring 2006

1-2: Process has been developed to estimate revenue accruals resulting from inappropriate experience rating transfers.

Person Responsible: John Stavros

Estimated Completion Date: Complete

**Status of Prior Federal Program Audit Findings
Supplemental Information – Continued**

Report 05-17

State Agency: Minnesota Department of Employment and Economic Development

Federal Agency: U.S. Department of Labor

CFDA Number/Program Name:

17.225 Unemployment Insurance

Finding 05-17-2 *Inadequate data integrity controls over employer rate calculations.*

- 2. DEED's data integrity controls require improvement to ensure the accuracy of employer unemployment insurance tax rate calculations.**

Recommendation

- *DEED should improve data integrity controls by reconciling and adjusting benefit charges posted to employer accounts when different than actual benefits paid and controlling computer application and data changes.*

Minnesota Department of Employment and Economic Development Response:

Part 1. As verified by the statistically valid sample of rate calculations submitted to the Department of Labor, our rate calculation process is accurate. Any deficiencies are being addressed in the system redesign.

Person Responsible: Kathy Nelson

Estimated Completion Date: Complete

Part 2. The current system of manual adjustments to keep the benefits payable in sync with the benefits chargeable is being automated.

Person Responsible: Kathy Nelson

Estimated Completion Date: Fall 2007

Status of Prior Federal Program Audit Findings Supplemental Information – Continued

Report 05-18

State Agency: Minnesota Department of Human Services

Federal Agency: U.S. Department of Health and Human Services

CFDA Number/Program Name:

93.767 State Children's Health Insurance Program

Finding 05-18-5 *Inadequate documentation for certain eligibility criteria.*

5. The Department of Human Services did not adequately document certain eligibility criteria for some State Children's Health Insurance Program participants.

Recommendation

- *The department should provide documentation for all components used to determine participant eligibility in the State Children's Health Insurance Program.*

Minnesota Department of Human Services Response:

We are writing a bulletin and developing a form for the counties to use to request repayment. The following corrective actions will be completed concurrent with issuance of the bulletin:

- The Program Assessment and Integrity Division will update their IEVS training if needed.
- Update Health Care training curriculum to reflect IEVS information.
- Update Health Care Policy Manual.
- MA voluntary repayment information will be incorporated into the HealthMatch work plan.

Manual Updates

The Health Care Policy Manual is being updated and will be complete in November 2006.

Health Care Implementations

The Health Care Application is being revised to encourage applicants to furnish verifications of eligibility with their submitted application forms.

Status of Prior Federal Program Audit Findings Supplemental Information – Continued

The Health Care Programs Manual is being revised to improve ease of use and clarity, and will be a web-based tool for workers. This will roll out over the next year.

Implementation of the HealthMatch automated eligibility system scheduled to start in 2007 will lead to greater documentation of eligibility decisions, as more information will be entered by workers as they process eligibility. HealthMatch is scheduled to be fully implemented by May 2008.

Person Responsible: Kathleen Henry, Director, Health Care Eligibility and Access Division

Estimated Completion Date: Ongoing

**Status of Prior Federal Program Audit Findings
Supplemental Information – Continued**

Report 05-18

State Agency: Minnesota Department of Human Services – Hennepin County

Federal Agencies: U.S. Department of Agriculture
U.S. Department of Health and Human Services

CFDA Numbers/Program Names:

10.551	Food Stamps
93.558	Temporary Assistance for Needy Families
93.778	Medical Assistance

Finding 05-18-H-1 *No monitoring of FIAT override transactions.*

1. Hennepin County did not monitor high-risk eligibility override transactions.

Recommendation

- *Hennepin County management should develop and implement procedures to monitor eligibility override transactions.*

Minnesota Department of Human Services – Hennepin County Response:

This finding is repeated in the current audit report. See Section III, Report 06-10, Finding H-1, for Hennepin County's response.

**Status of Prior Federal Program Audit Findings
Supplemental Information – Continued**

Report 05-18

State Agency: Minnesota Department of Human Services – Hennepin County

Federal Agency: U.S. Department of Health and Human Services

CFDA Numbers/Program Names:

93.558	Temporary Assistance for Needy Families
93.778	Medical Assistance

Finding 05-18-H-2 *Untimely resolution of discrepancies identified by IEVS.*

- 2. Hennepin County did not resolve income discrepancies identified as part of the benefit eligibility process in a timely manner.**

Recommendation

- *Hennepin County should continue to work with the Minnesota Department of Human Services to resolve Income Eligibility Verification System (IEVS) discrepancies in a timely manner.*

Minnesota Department of Human Services – Hennepin County Response:

This finding is repeated in the current audit report. See Section III, Report 06-10, Finding H-2, for Hennepin County's response.

**Status of Prior Federal Program Audit Findings
Supplemental Information – Continued**

Report 05-18

State Agency: Minnesota Department of Human Services – Ramsey County

Federal Agencies: U.S. Department of Agriculture
U.S. Department of Health and Human Services

CFDA Numbers/Program Names:

10.551	Food Stamps
93.558	Temporary Assistance for Needy Families
93.778	Medical Assistance

Finding 05-18-R-1 *No monitoring of FIAT override transactions.*

1. Ramsey County did not monitor high-risk eligibility override transactions.

Recommendation

- *Ramsey County management should develop and implement procedures to routinely monitor eligibility override transactions.*

Minnesota Department of Human Services – Ramsey County Response:

This finding is repeated in the current audit report. See Section III, Report 06-10, Finding R-1, for Ramsey County's response.

**Status of Prior Federal Program Audit Findings
Supplemental Information – Continued**

Report 05-18

State Agency: Minnesota Department of Human Services – Ramsey County

Federal Agency: U.S. Department of Health and Human Services

CFDA Numbers/Program Names:

93.558 Temporary Assistance for Needy Families

93.778 Medical Assistance

Finding 05-18-R-2 *Untimely resolution of discrepancies identified by IEVS.*

- 2. Ramsey County did not resolve income discrepancies identified as part of the benefit eligibility process in a timely manner.**

Recommendation

- *Ramsey County should continue to work with the Minnesota Department of Human Services to resolve Income Eligibility Verification System (IEVS) discrepancies in a timely manner.*

Minnesota Department of Human Services – Ramsey County Response:

This finding is repeated in the current audit report. See Section III, Report 06-10, Finding R-2, for Ramsey County's response.

**Status of Prior Federal Program Audit Findings
Supplemental Information – Continued**

Report 05-18

State Agency: Minnesota Department of Human Services – Saint Louis County

Federal Agencies: U.S. Department of Agriculture
U.S. Department of Health and Human Services

CFDA Numbers/Program Names:

10.551	Food Stamps
93.558	Temporary Assistance for Needy Families
93.778	Medical Assistance

Finding 05-18-S-1 *No monitoring of FIAT override transactions.*

1. Saint Louis County did not monitor high-risk eligibility override transactions.

Recommendation

- *Saint Louis County human services management should develop and implement procedures to monitor eligibility override transactions.*

Minnesota Department of Human Services – Saint Louis County Response:

This finding is repeated in the current audit report. See Section III, Report 06-10, Finding S-1, for St. Louis County's response.

**Status of Prior Federal Program Audit Findings
Supplemental Information – Continued**

Report 05-20

State Agency: Minnesota Department of Transportation

Federal Agency: U.S. Department of Transportation

CFDA Number/Program Name:

20.205 Highway Planning and Construction

Finding 05-20-2 *Project oversight procedures need improvement.*

- 2. PRIOR AUDIT FINDING NOT RESOLVED: The department should improve certain project oversight procedures. (Finding 04-17-2)**

Recommendation

- *The department should continue to strengthen its project oversight procedures to ensure compliance with federal and state requirements.*

Minnesota Department of Transportation Response:

- A) The Mn/DOT Office of Audit recommended additional management attention for bituminous and concrete materials testing requirements.

Actions: Items identified in the audit have included increased emphasis in Technical Training Courses; Mn/DOT's State Aid for Local Transportation (SALT) Division emphasized these items in communications to cities and counties; SALT also offered availability of Just-in-Time training to local units of government on an as requested basis.

Persons Responsible: Julie Skallman, SALT Division Director
Richard Stehr, Engineering Services Division Director
Robert Winter, District Operations Division Director

Estimated Completion Date: Action Plans have been implemented. However, this continues to be an issue and will be addressed statewide as well as on a case-by-case basis.

- B) The Mn/DOT Office of Audit identified projects where district state aid engineers inappropriately signed delegated contract process project supplemental agreements.

Actions: SALT Director reviewed a related Technical Memo, determined that it was correct as written then, reminded District State Aid Engineers to add a statement that their signature was for funding approval only.

Status of Prior Federal Program Audit Findings Supplemental Information – Continued

Person Responsible: Julie Skallman, SALT Division Director

Estimated Completion Date: Complete

- C) The Mn/DOT Office of Audit indicated that required documentation for weekly inspections of erosion control effectiveness was not met for some reviewed projects.

Actions: SALT Director advised city and county engineers of this requirement; a related NPDES Technical Memo was redistributed; NPDES requirements were addressed at an Environmental Services workshop.

Persons Responsible: Julie Skallman, SALT Division Director
Richard Stehr, Engineering Services Division Director
Robert Winter, District Operations Division Director

Estimated Completion Date: Compliance with reporting requirements have improved.
Because of evolving NPDES requirements, Mn/DOT will continue to address these requirements through training and communication.

- D) The Mn/DOT Office of Audit identified one city project in which the projects quality control/quality assurance language appeared contrary to federal regulations.

Actions: SALT sent a reminder to city and county engineers that compliance with 23 CFR is required. SALT offered continuing guidance to city and county engineers.

Persons Responsible: Julie Skallman, SALT Division Director
Richard Stehr, Engineering Services Division Director
Robert Winter, District Operations Division Director

Estimated Completion Date: Corrective actions implemented with city and county engineers. However, this continues to be an issue and will be addressed statewide as well as on a case-by-case basis.

**Status of Prior Federal Program Audit Findings
Supplemental Information – Continued**

Report KDV-04

State Agency: Minnesota State Colleges and Universities

Federal Agency: U.S. Department of Education

CFDA Numbers/Program Names:

Various Financial Aid Cluster

Finding KDV-04-1 *Omitted items in published satisfactory academic progress policies.*

Recommendation

- *Ensure the Colleges' and Universities' satisfactory academic progress policy addresses all of the requirements in the SFA regulations. Implement policies and procedures to be used by the colleges and universities to monitor compliance with satisfactory academic progress requirements in accordance with the SFA regulations.*

Minnesota State Colleges and Universities Response:

The finding cited improvements needed in the Satisfactory Academic Progress Policies for five institutions. Three institutions have implemented corrective actions. Two institutions, Minnesota State Community and Technical College and Ridgewater College, have drafted revised policies, but not yet put them into place.

Persons Responsible: Dr. Ann Valentine, President, Minnesota State Community and Technical College
Dr. Doug Allen, President, Ridgewater College

Estimated Completion Date: Fall 2006

**Status of Prior Federal Program Audit Findings
Supplemental Information – Continued**

Report KDV-04

State Agency: Minnesota State Colleges and Universities

Federal Agency: U.S. Department of Education

CFDA Number/Program Name:

84.063 Federal Pell Grant

Finding KDV-04-3 *Student payment data not reported in a timely manner.*

Recommendation

- *The above Colleges and Universities should ensure that Federal Pell Grant expenditures are reported to the U.S. Department of Education within 30 days of being disbursed.*

Minnesota State Colleges and Universities Response:

The finding cited the need to improve the timeliness of reporting Pell Grant disbursements at three institutions. Two institutions have implemented correction actions. Anoka Technical College has not yet implemented final corrective action. The college is in the process of restructuring its financial aid function. Temporary assistance is being sought from another technical college while the restructuring is underway.

Person Responsible: Anne Weyandt, President, Anoka Technical College

Estimated Completion Date: December 2006

**Status of Prior Federal Program Audit Findings
Supplemental Information – Continued**

Report KDV-04

State Agency: Minnesota State Colleges and Universities

Federal Agency: U.S. Department of Education

CFDA Numbers/Program Names:

Various Financial Aid Cluster

Finding KDV-04-4 *Inadequate policies and procedures for verifying applicant information.*

Recommendation

- *The above Colleges and Universities should develop written policies for verification procedures as required by 34 CFR 668.51 through 668.61.*

Minnesota State Colleges and Universities Response:

The finding cited improvements needed in verifying financial aid applicant information. One institution has implemented corrective action. Two institutions, Minnesota State Community and Technical College and Ridgewater College, have drafted revised policies, but not yet put them into place.

Persons Responsible: Dr. Ann Valentine, President, Minnesota State Community and Technical College
Dr. Doug Allen, President, Ridgewater College

Estimated Completion Date: Fall 2006

**Status of Prior Federal Program Audit Findings
Supplemental Information – Continued**

Report KDV-04

State Agency: Minnesota State University, Mankato

Federal Agency: U.S. Department of Education

CFDA Numbers/Program Names:

Various Financial Aid Cluster

Finding KDV-04-6 *Inadequate monitoring of satisfactory academic progress.*

Recommendation

- *Implement policies and procedures to appropriately monitor the Universities' compliance with the requirements of satisfactory academic progress policies and return of Title IV funds.*

Minnesota State Colleges and Universities Response:

The finding requires Minnesota State University Mankato to repay funds for instances where students had not made satisfactory academic progress in fiscal year 2004. The university has completed its analysis and submitted a proposed repayment to the U.S. Department of Education, but is awaiting final approval from the department.

Person Responsible: Dr. Richard Davenport, President, Minnesota State University Mankato

Estimated Completion Date: Within 30 days of receiving approval from the U.S. Department of Education

**Status of Prior Federal Program Audit Findings
Supplemental Information – Continued**

Report KDV-04

State Agency: Anoka Technical College

Federal Agency: U.S. Department of Education

CFDA Numbers/Program Names:

Various Financial Aid Cluster

Finding KDV-04-9 *Omitted items in published satisfactory academic progress policies.
Inconsistent calculation of return of Title IV funds.*

Recommendations

- *Implement policies and procedures to appropriately monitor the Colleges' and Universities' compliance with the requirements of satisfactory academic progress policies and return of Title IV funds.*
- *Ensure that Anoka's satisfactory academic progress policy addresses all of the requirements in the SFA Handbook. Implement policies and procedures to be used by the colleges and universities to monitor compliance with satisfactory academic progress requirements in accordance with SFA regulations.*

Minnesota State Colleges and Universities Response:

This finding reiterated several problems and potential overpayments in financial aid that had been cited in a federal program review that had occurred at Anoka Technical College. The college has repaid the overpayments to the department. It continues, however, to work toward improving policies and processes. The college is in the process of restructuring its financial aid function. Temporary assistance is being sought from another technical college while the restructuring is underway.

Person Responsible: Anne Weyandt, President, Anoka Technical College

Estimated Completion Date: December 2006

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